AMERICAN BANKERS Association JOURNAL

OCTOBER, 1928

Banking Moves Northward

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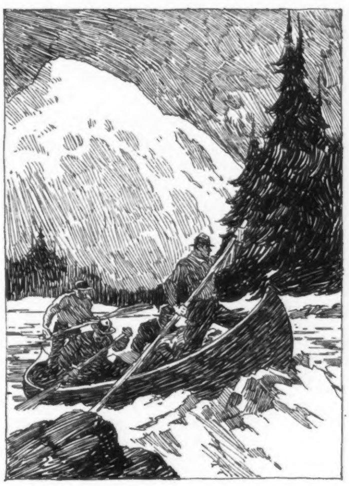
[THE JOURNAL COVER PICTURE; FROM A PAINTING BY WALTER DE MARIS]

CANADA is a country of magnificent distances and with an incalculable wealth of natural resources. Any day in this year of 1928 may bring to us news of a new and important mineral discovery as have many days in the years that are gone.

New towns springing up where important mineral discoveries have been made bring new needs and new opportunities, and among the needs and the opportunities is a bank in the hands of men who inspire confidence.



When gold was discovered in the Klondike in 1896 and in the following year thousands from all parts of the world braved the rigors of an unknown region and the cold and snow of the wilderness to get to the Promised Land, banking soon followed, and its representatives, like the prospectors, had to share the common dangers and bear the same hardships.

The nature of these dangers and hardships need no detailed retelling here—bitter cold, deep snows, trails that were but tracks in the wilds, mountains to climb, swift-flowing rivers to be crossed, other rivers wild, turbulent and uncharted to be navigated, not in your eastern fashion with staunch well built boats but with rafts or with canoes.

How tortuous the way may be suggested by the eccentric 2300 mile course of the Yukon. How arduous the land part of the journey is suggested by the words Chilkoot Pass, a grueling difficult ascent where once an avalanche killed sixty men.

THE painting from which this month's cover illustration is made is based on the experiences of a party of men which the Canadian Bank of Commerce sent out from Toronto in 1898 to establish a branch bank in Dawson. After many adventures and trials, the party reached Dawson safely with its bank supplies and equipment and set up temporary banking quarters in a 20x24 foot frame building which had been used as a fish storehouse.

"Paying the Creditor Without Mercy," the November cover, illustrates a creditor's plight.

AMERICAN BANKERS ASSOCIATION JOURNAL

Milestones of Banking Progress

Philadelphia Convention Erects Milestones of Bank Progress. Ability of Banking Profession to Function Adequately With Depositors Doing Their Part Dominant Note. Efficiency and Safety Is Goal Set. High Standards of Management Demanded.

MILESTONES of merit were placed along the path of progress of the financial institutions of the country by the Fifty-fourth Annual Convention of the American Bankers Association held in Philadelphia from the first to the fourth of October, 1928.

Brilliant achievements of the past were recorded. Responsibilities of the present were boldly assumed. Preparations for meeting the problems of the future were made with confidence and optimism.

Some 5625 delegates, representing practically the entire banking structure of the United States, gathered at Philadelphia to take part in the sessions of the Convention and the meetings of the Divisons, Sections, Commissions and Committees of the Association. In their deliberations they had the benefit of the advice of successful bankers and business men, the wisdom of leaders in national thought and education and the counsel of high government officers, intimately concerned with the banking affairs of the country.

Willingness of the banking profession to continue its function of adjusting the credit needs of the nation to its requirements was a dominant note in the proceedings, coupled with the belief that depositors also must do their part in safeguarding the wealth of the United States and preserving its use to the common good.

More efficient service and unassailable safety was the goal to which the Convention turned the eyes of American banks. Yet joined to these aims was the realization that the servant is worthy of his recompense and that safety in banking is inextricably linked with a fair margin of profits. To these ends the extension of modern methods for widening the margin between expenses and earnings stood out in the studies of bank operation.

America's high place in world finance and recognition of its ability in leadership was reflected in the proposal of President Preston for the formation of an international association of bankers. The chief step to be taken in the field of domestic banking was pointed to by the incoming President, Craig B. Hazlewood, as insistence upon the highest standards of bank management.

Retention of the present form of organization of the Association was decided upon. This action was taken on the report of the Committee on Reorganization which recommended, however, that where the present units have common interests that they coordinate these interests more closely than at present.

San Francisco was chosen for the 1929 meeting of the Association—the Fifty-fifth Annual Convention. The Association goes West after convening in the South and in the East in 1927 and 1928 in accordance with its custom which permits the members to obtain first-hand contacts with the different sections of a wide country. The invitation to come to the Pacific Coast held out the promise of a hearty welcome.

Meetings in the East and West in two successive years strengthens the spirit so evident at Philadelphia of a closer dependence upon one another of the bankers of the Untied States, even though separated by the width or depth of a continent. At Philadelphia realization of the value of mutual service became more pronounced. With it came actual demonstrations of the measureless recompense of cooperation both to banking as a profession and to the common good.

Practical experience in the results of teamwork is the basis for the sentiment, crystallizing at Philadelphia, for the extension of coordinated banking progress to all elements of the profession. In this movement, which aims toward the spread of knowledge and the interchange of helpful information, there is contemplated not only the in-

terest of the banker well up the ladder of his profession, but the youth on the lower rungs who is reaching out for the technical studies which will fit him for the places above.

An ideal has been set up wherein uniformity of skill and efficiency will become the attribute of the banking system of the country. Dissemination of ideas is counted upon to precipitate discussion. Each may learn by taking counsel with the other. The groundwork has been laid at Philadelphia for entrance into the new era which is opening up for banking as well as for business and industry.

Standing at the junction of two great economic highways—where one era ends and another begins—the Philadelphia Convention placed the feet of the nation's bankers squarely in the path of greater endeavor. Banking is ready to move forward, happy in its ability to meet changing conditions and unshakable in its hope for the future.

The General Sessions of the Convention

GREETINGS from the President of the United States were extended to the delegates to the Fifty-fourth Annual Convention of the American Bankers Association at the first of the general sessions which was called to order Tuesday morning, October 2, in the Academy of Music in Philadelphia by Thomas R. Preston, President of the Association.

A message from President Coolidge to Mr. Preston was read to the convention by Fred N. Shepherd, Executive Manager of the Association. Mr. Coolidge said:

"I have a very high regard for your organization; its aims and purposes are high, and its achievements have been to the benefit of the financial and business interests of the country. I wish for you a most successful meeting. Please extend my greetings and best wishes to your members."

After the invocation pronounced by Bishop E. G. Richardson of the Methodist Episcopal Church, Mr. Preston delivered the annual address of the President of the Association, which is printed in full elsewhere.

San Francisco Chosen

A REPORT of the official acts and proceedings of the executive council was read by William G. Fitzwilson, Secretary of the Association.

Upon the adoption of the report, in which interest centered upon the selection of San Francisco as the meeting place for the convention next year, Mr. Preston introduced as "one of the great thinkers and one of the great educators of this country" the principal speaker of the opening session, Dr. Edwin A. Alderman, president of the University of Virginia. His address will be found elsewhere.

The resolutions committee was named by President Preston as follows: Charles A. Hinsch, Chairman, George E. Roberts, Walter Lichtenstein and Thomas B. Paton with the addition of the following vice presidents of divisions and the chairmen of the five commissions; Edgar H. Sensenich of the National Bank Division, Taylor R. Durham of the Savings Bank Division, James H. Perkins of the Trust Company Division, W. J. Evans of the American Institute of Banking, Frank Warner of the State Secretaries Section, W. F. Augustine of the Clearinghouse Section, Burton M. Smith, Chairman of the Agricultural Commission, Fred I. Kent of the Commerce and Marine Commission, Evans Woollen of the Economic Policy Commission, J. H. Peulicher of the Public Education Commission and Charles Cason of the Public Relations Commission.

The Second Session

CRAIG B. HAZLEWOOD, vice-president of the Union Trust Company of Chicago, was elected President of the American Bankers Association for the year 1928-1929 at the second general session of the Convention, which met Wednesday morning, Oct. 3.

John G. Lonsdale, president of the National Bank of Commerce of St. Louis, was elected First Vice-President of the Association, and Rome C. Stephenson, vice-president of the St. Joseph County Savings Bank, South Bend, Ind., was elected Second Vice-President of the Association.

After the invocation, pronounced by the Reverend Harry Burton Boyd, pastor of the Arch Street Presbyterian Church, Philadelphia, the Convention heard an address (printed elsewhere) by Roy A. Young, Governor of the Federal Reserve Board, upon the responsibilities of the banker and the place of the Federal Reserve System in the banking structure of the United States.

Third Session

INVOCATION was pronounced at the third general session of the Convention, which met Thursday morning, Oct. 4, by the Reverend Alonzo Ray Petty, pastor of the Baptist Temple, Philadelphia.

The speaker of the day was Dean Harry L. Russell of the College of Agriculture of the University of Wisconsin. His address (printed elsewhere) on "Upholding the Hands of Moses" was an impressive presentation of the fundamental problems of agriculture and its need for basic strength rather than temporary aids.

After the adoption of the Convention resolutions (printed elsewhere), Mr. Preston proceeded with the installation of the newly elected officers of the Association, first introducing the incoming President, Mr. Hazlewood, who made his inaugural address, outlining the aims of his administration.

A Great Record

"I AM deeply sensible," Mr. Hazlewood said, "of this high honor conferred upon me. I do not feel that I can adequately express to you my gratitude for it. I think I know the importance of the responsibilities of the office. You know, and I know, that this convention marks the close of another successful Association year under the leadership of Mr. Preston. He has held fast to that which is good, and he has broadened and strengthened our activities and influences. He has left a strong impression of clear thinking, conservatism and trustworthiness in every corner of the land. He typifies the highest ideals of American banking. And aside from this, he is a rare friend and he has a perfectly delightful sense of humor.

"Our Association has a record of great accomplishments in the fields of education, economics, agricultural cooperation, public relations, bank legislation, bank protection and banking practice. We have the benefit of the specialized expert ability in each line of activity, and in our annual conventions we obtain a mass opinion of representatives of two-thirds of the banks in this country on banking and economic questions.

Great Possibilities

"I SEE great possibilities for the extension and amplification of our activities in all these directions. In particular, I see great possibilities and need for research and leadership in matters of banking practice, in bank operation, management and administration.

"I propose that we emphasize this year the study of all phases of bank technique, and the dissemination of information regarding standard practice and efficient and profitable bank operation.

"There is need of this. In most parts of this country we no longer have the pioneer days of banking when any rate to a borrower would be acceptable. If there is any lesson to be learned from the studies and surveys of the banking business which have been made in this country, it is the imperative necessity for better management. We must make every effort to develop and apply the science of management in the banking business.

Community Interests

"THE new administration means to promote the regional examination plan which has a dual objective: first, more thorough and constructive bank examination; and, second, the organization of community interests for discussion of banking matters.

"For the latter purposes and for the particular interests of the country banker, we mean to provide suggested ma-

terial in pamphlet form and also in the columns of THE JOURNAL.

"We will employ in this effort the most certain counsel we can obtain and the best brains we can find in our organization. There is no rightful place in the banking business for any man not possessed of the highest sense of honor and integrity, nor for the man who will use the bank entirely for his own selfish purpose, nor for the man who through lack of experience and knowledge, is incompetent to properly administer a bank's affairs. I am of the opinion that the time has come when the American Bankers Association, which includes in its membership most of the skilled men of our profession, should definitely sponsor a model statute or set of regulations which would require the examination of applicants for managerial positions in banks and which would also require certain minimum actual bank experience before one may assume the responsibilities of management.

Genuine Progress

"I BELIEVE that following the adoption by the states of legal machinery to require such qualifications that the banking profession will rise to new dignity, banking practice will become infinitely more skillful and standards of safety placed on a much higher level. Gentlemen, the power and influence of this association of 20,000 banks is great, greater than we know. Leadership in the elevating banking standards is expected of us. Wonderful things for the betterment of our own business lie before us. If, as I am confident, the active membership of this Association is in sympathy with progress, then steady and irresistible progress will be achieved.

"If you, gentlemen, in your respective communities will take this position, if you will believe that your own welfare is forwarded through cooperation among strong and well-managed competitors, then we shall achieve genuine progress."

Elder Statesmen

THE incoming First Vice-President, Mr. Lonsdale, was then introduced, who said:

"Mr. President, ladies and gentlemen:

> Deepened to each artist's soul some
> picture lies
> That he seldom paints for human eyes,
> And many of us in our hearts do hold
> Some dear sweet tale we leave untold.

"But today it is my purpose to talk to you from the heart, and I want you to be assured of my sincere appreciation of the honor coupled with the trusteeship.

"A vice-president belongs to the cabinet of the going administration and should so serve. What to do with our ex-presidents is not a serious problem. Believing as I do in the continuity of service, following the custom of the Far East, the ex-presidents should become what is known as elder statesmen to be consulted and whose experience and advice is always most valuable."

The incoming Second Vice-President, Mr. Stephenson, was then invested with office. His address follows:

"It is a great compliment to any man to be selected as Vice-President of this great Association, and I thank the delegates from the bottom of my heart for their kindness and for their friendly consideration in voting for me for the position of Second Vice-President.

"During the coming year it will be my sole endeavor to assist Mr. Hazlewood and Mr. Lonsdale in connection with the work of the Association. I know that Mr. Hazlewood's administration will be successful because he has well defined ideas of what should be done to assist the banker to be a better banker and to run better banks.

"During my visit to Philadelphia this week it has been a great inspiration to me, and I have thought more of historical things than I have of banking things.

Greater Love

"YESTERDAY afternoon I had the pleasure of visiting Valley Forge. I also visited a little shrine which every member of the banking association should visit before leaving the city. As I stood before that little shrine, my thoughts went back to that great naval battle between the British and the Americans under the gallant leadership of Captain John Paul Jones, when he lashed his ship to that of the enemy and, hand to hand, man to man, they fought until the British colors struck, and under the very cliffs of our dear old mother country were run up for the first time the Stars and Stripes with the field of blue, into which the nimble fingers of Betsy Ross of this grand old city had interwoven inextinguishable stars. The red stripes typified the honor, the glory and the valiancy of the men who died that liberty might live, and the white stripes were emblematical of purity, fitly representing those principles to preserve which the men of revolutionary days sacrificed themselves upon the altar of their country.

"I will go back to my home in Indiana with a greater love of country than I have ever had before, and a greater understanding of Philadelphia and its wonderful historic things.

> "That grand old flag is
> Your flag and my flag, and how it flies
> today
> In your land and my land, and half a
> world away;
> Rose red and blood red,
> Its stripes forever gleamed,
> Snow-white and soul-white
> The good forefathers dreamed.
>
> "Sky blue and true blue,
> With stars to gleam aright,
> A glorious guardian of the day,
> A shelter through the night.
> It's your flag and my flag,
> And oh how much it holds
> Of your land and my land,
> Secure beneath its folds.
>
> "Your heart and my heart
> Beat quicker at the sight,
> Sunkissed and wind-tossed,
> The blue and red and white.
> The one flag, the great flag,
> The flag for me and you,
> Glorifies all else beside,
> The red, the white, the blue."

Upon the conclusion of the inauguration of the new officers of the Association, Walter W. Head, former President of the Association, was recognized to present a silver set to Past President Preston as a token of appreciation from the members. Mr. Head said:

There Shines Forth

"IN this world in which we live we admire some men for their accomplishments. We admire and love others for what they are. Throughout all recorded pages of history this distinction has been maintained. Also, throughout all the recorded pages of history, the achievements of men have marked the forward progress of civilization. These men have had the respect and admiration of their fellowmen. Their ability and their accomplishments have won for them that respect and that admiration. Occasionally there shine forth bright and luminous stars, eternal beacons whose shining glory remains undimmed throughout all the generations which have come and gone since their passing.

"These men, as I said, had the respect and the admiration of their fellowmen. They were also admired and loved by their fellowmen, not only at the noonday in their span of life were they recognized to be great by those with whom they came in contact, but through all the generations and all the years which have come and gone since their passing have their names been prominently before us.

"These men are those whose character, whose personality and whose spirit, call it what you will, reach beyond the minds of men. They penetrated far deeper than appeal to reason alone. They entered, indeed, into the hearts and souls of those with whom they came in contact. We of the present generation respect these men. We admire them. More than that, we love them. They have touched our hearts. Our hearts and their hearts beat in harmonious accord. They have inspired our ambition. They have revived our hope. They have been, indeed, not merely leaders of men, but toilers side by side with those whom they led and served. They have been humble in their strength, strong in their believing, sympathetic in their moments of greatness, and great in the broad extent of their sympathy. We cherish the memory of these men long after their earthly careers are ended.

With Honor and Dignity

"MY fellow bankers, today we honor a man of this character, one whom we respect and admire for his accomplishments, one whom we admire and love for himself alone. We, the members of the American Bankers Association, will always be happy, Mr. Preston, that you have honored us by serving as our leader. We not only proclaim your service to our Association, but to the great banking fraternity in general. We appreciate fully the service that you have rendered to us. We appreciate fully the bettered condition which now exists as a result of your service to our Association between bankers as individuals and be-

(*Continued on page* 425)

CRAIG B. HAZLEWOOD

President American Bankers Association, and Vice-President Union Trust Company, Chicago

An International Society of Bankers Is Needed

By THOMAS R. PRESTON
Retiring President, The American Bankers Association

Would Make for More Cordial Understanding Between Nations. American Bankers Association Should Take Initiative Toward Such a Movement. Bankers Place in Public Affairs Important. Responsibilities of Leadership. Trend of New Federal Laws.

THERE has never been a time when the public was so interested in financial matters as it is today. There has never been a time when it required more service on the part of the banks than now; never was a wider range of information so necessary to the successful banker as at the present time.

Mighty changes in the social and business life of the American people have occurred in the past twenty years, the like of which no other generation ever experienced, due in part at least to scientific discoveries and inventions. The inventive genius of man has never been so busy as in the past twenty years. The real purpose of the American Bankers Association is not only to serve its membership, but to enable them to better serve the public. It is in a way the research department for all the banks in the United States.

Leadership

DELIVERING the annual address of the President, Mr. Preston stressed the banker's obligation to the present and to posterity in the course of public affairs both at home and in the international field. Financial developments are now so closely related that what affects one country affects all. Trend toward further Government regulation of private affairs is a danger to be watched in this country, where the banker best knows the rights and privileges of the individual.

Should Charge for Service

IN 1921 there were 30,813 banks in this country. By consolidations, failures and other causes they have gradually declined in number until there are now about 27,000. Every thoughtful person realizes that it is far better for the public that we have fewer and larger banks, which can at all times render adequate service, rather than a multitude of little ones struggling for existence. This view has apparently been accepted by the Comptroller's office, as well as by the Commissioners of Banks in the various states. The records of the Comptroller's Office show that more than one-half of the applications to organize national banks are now declined. This Association has stood for larger and better banks everywhere. We need more banks with capital of \$50,000 to \$100,000 substituted for those with capital of \$10,000 to \$20,000. A dollar does not mean now what it used to mean.

The American Bankers Association has tried to promote a spirit of cooperation among banks everywhere. There are two regional clearing houses now in operation, with every indication that they will be successful, and many more may follow. These are not only helpful to the members, but are a decided advantage to their communities. Primarily the public is interested in sound banks. Everything else to them is secondary, and an institution that does not earn a reasonable profit cannot long remain a sound bank. Some banks are learning that they are not benevolent institutions and that they should charge for actual service rendered, the same as every other institution.

Branch and Group Banking

THERE has also arisen in the past twenty years a new type of banking, known as branch banking. There are now more than 900 branches of national banks, and possibly twice that many state banks' branches, or a total of somewhere between 2,700 and 3,000, against practically none twenty years ago.

More recently there is still another type, called group banking, where ownership of a number of institutions have been joined together in a holding company. To what extent these two types will further encroach upon the independent units time alone will tell. The determining factor will be what is best for the public, and so far as my observation goes, the public has offered little if any protest to these new types of banking. It should be remembered, however, that the independent unit has been a powerful factor in the growth and development of this country.

The continued concentration of banking resources in the centers may seriously affect many of the independent banks. One of the chief reasons for this concentration is the improved highways and marvelously improved methods of transportation and communication which have taken place in recent years. These changes are not alone in banking; they are in many other lines, notably in merchandising. Few things have grown more rapidly in this country than chain store sales.

On a Higher Plane

THE resources of all the banks in the United States have gained more than 300 per cent in less than twenty years, and this movement has continued to gather momentum in the last few years, although since 1921 the number of banks have decreased over 3000. The total resources are now slightly less than \$70,000,000,000, a sum never before reached in this or any other country. The membership of this Association represents about ninety per cent of the resources of all the banks of this country.

Never before has the public owned so large an interest in the banks as now. Ownership of banks by the few is passing to the many. Stock of banks as well as other corporations was never so widely distributed as now. Anyone who desires to do so can own stock in any of our great banks or any of our other great institutions. I think also that the standards in banking as well as everything else, are on a higher plane today than ever known before. As banks are public institutions, they should go more

than half way to meet public requirements. Appreciating this responsibility, many of the great financial institutions now have departments rendering complete service to their smallest customers, and this, I believe, is a splendid tribute to the wisdom of the management of the banks of this country, as a small man is just as much entitled to financial consideration as the largest corporation. A man can now borrow $100 from great Wall Street banks, or open an account with most of the great banks of the country with $5. Bankers are the one class of people which touch life at every angle.

Operating Smoothly

DUE to the cumulative effort of years of constructive work, the affairs of the Association never operated more smoothly or functioned more efficiently than they have for the past twelve months. This is not only true of the staff, the seven Sections and Divisions and various Committees, but is likewise true of the Executive Council and all its Committees and Commissions. Our staff now numbers about eighty people, we have 705 serving on Committees, and our annual income is in excess of $800,000.00. The financial affairs of the Association were never in better condition.

May I take advantage of this opportunity to thank all of these, as well as the membership, for their cooperation and kindness to me, and for those who may in the future be President of the American Bankers Association, I can wish nothing better than that the membership of this Association will show to them the same kindly consideration they have so generously shown to me.

An International Bankers Association

I HAVE two recommendations:

First: I would recommend the forming of an International Bankers Association. It seems to me it would be impractical to have any other kind of an association except a delegated one. Such an association would not only help us to solve financial and industrial problems, but would bring to the world a better understanding of the problems and difficulties which beset every country, and would undoubtedly make for a more cordial and sympathetic understanding between the countries of the world. If the United States is to maintain its financial and industrial supremacy, it must continue to lend, invest and sell abroad on an ever-increasing scale. Foreign business to us will be more important in the future than it has been in the past.

We are now so closely related to other countries that what affects one section of the world in turn affects us all, and it seems to me it would be desirable to have a meeting of representatives of all the banks of the world at some convenient point like New York, London, Paris or Berlin, at intervals of two to three years. Our investments in foreign securities have not always been desirable, and this international association might bring a better understanding of credit conditions and the wants and needs of all countries. The American Bankers Association I think, should take the initiative in inviting such a conference, not in a patronizing way, but in full recognition of the fact that this would be mutually beneficial to all, and that other countries might help us quite as much as we could help them.

Second: I believe the Association should have a permanent home. In a few years the financial affairs of the Association should be in such shape that a permanent home should be provided. The net income from this home, except free rent for the Association, could go into our Educational Fund. This would give stability and prestige to the Association which does not now and never can exist in a rented building.

New Trends

THE changing character of the earning assets of banks of this country is one of the notable trends of the times. The percentage of commercial borrowings has relatively decreased in recent years, compared with very large increases in investments in bonds and loans upon industrial securities.

There is a real reason for high rates for money throughout the country, the chief reason being the fact that we have exported in less than twelve months gold equal to our net imports for the previous four years; another is the ever-increasing demand for credit. For the first time in the history of this country the whole nation is trading in stocks and bonds. Some authorities estimate that there are now thirty times as many security holders as there were fifteen years ago. There has been a great discussion throughout the country in recent months of what are termed "call loans." We seem, however, to lose sight of the fact that the ratio of call loans to the market value of securities listed upon the New York stock exchange has varied but little in three years.

In the spring of 1926 these loans reached the highest point, representing approximately 10¼ per cent of the market value of all securities listed upon the big board. The lowest was in September, 1927, when the ratio was approximately 8 per cent. In June, 1928, when the Federal Reserve Banks first began to increase their rate of interest, the ratio was less than 9½ per cent. The increase in interest rates and the attempt to curb speculation has of course caused higher rates for business and agriculture, but viewed impartially, the action of the Federal Reserve System in attempting to curb speculation has been fully justified. Nothing would be more unfortunate than to have a period of undue inflation.

The Era of Mergers

BUSINESS has been unevenly expanded, but upon the whole, the year 1928 will prove a satisfactory year and the volume of business will likely be larger than for 1927. The nation's wealth is being enormously increased. All business is learning efficient methods. Mass production and efficiency has put millions of automobiles, radios, electric lights, telephones and other conveniences in American homes. The savings of the people are also constantly increasing. Our transportation facilities were never equal to what they are today. All of these have had a direct bearing upon the banking business of the country. The service the railroads and other transportation agencies are rendering the people has released a vast amount of capital which was once tied up in large inventories. There is no such thing now as a car shortage.

According to government figures there is a net shifting of more than a million of our people annually from the farms to the towns and cities, yet there is an over-production in agriculture in nearly every line. The capacity of man has been multiplied on the farm as everywhere else. We are in a way living in a new America. Past experiences now mean little to us, and there is one trend that is decidedly noticeable,—we are coming to the era of mergers and combinations, the like of which we have never known before. We now have but few institutions with a capital structure running into the billions of dollars. If the trend continues, a generation hence we will have those running into tens of billions of dollars. The one thing to be considered above all others in this connection is what is the best for the public, and can these larger units render better service than a multitude of small ones? Neither must these mergers come too fast for public understanding.

Election Not a Business Factor

WE as a people have completely reversed our position on these matters in the past few years. Most of us can remember when the Government prevented the consolidation of what was known as the James J. Hill Railroads, and by threats prevented a similar consolidation of what were known as the Harriman Lines. Now Congress is trying to bring about a consolidation or grouping of the railroads, forcing in a way the very thing they tried at one time to prevent. Along prudent lines, consolidations and trade understanding make for efficiency and better service to the public. Ruinous competition has in the end always been harmful. Mergers and trade agreements may solve many of our industrial ills. These remedies should be applied to the coal industry, as well as to others, and the public would be far better off than it is now.

It seems to me we are also coming to a new era in our political life. There will be no disturbance of legitimate business, either large or small, regardless of which party wins the Presidency in the coming election. Politically, as well as in many other ways, business and the masses seem to have gone into partnership, and now have a more sympathetic understanding and a more cooperative

(*Continued on page 426*)

The Strength of Democracy

By EDWIN A. ALDERMAN
President, The University of Virginia

Democracy Envisioned as Offering to Every Man His Chance. Despite Carping Critics Its Success Demonstrated in Past. Its Task for the Future the Infusion of a Saving Sense of Responsibility and Power and Duty Into a Vast Electorate. Its Aspects.

THE honest business man needs somebody to praise him. He has done a great service in this country. Two decades ago, out of our youth and feverish, wasteful strength there grew up a spirit of avarice and desire for quick wealth and a theory of life in lesser minds that estimated money as everything.

Patriotism, which is hard to define and new with every age, and public spirit, which also is hard to define and new with every age, found it necessary to redefine and readjust themselves. A new patriotic spirit thus got reborn which simply meant a reaction from unsocial and selfish individualism to restraint and just consideration for the general welfare.

This reawakened patriotism had the advantage of appeal to a sound public conscience and a valid public opinion, and out of this new patriotism came the power to know the genuine from the spurious in American business, and some looming figures once much admired came to be scorned. This very growth in discernment gave plain men power to see in a clearer light the names of those upright souls in business and politics who had held true and had kept clean and human their republican ideals, and by so doing had kept sweet their country's fame.

Democracy, it came to be seen, had simply met and outfaced one of the many crises that must perforce assail free government, and I believe that, despite sporadic bandits of politics and commerce, that this republic of ours is cleaner today in ruling passion, in business motive and practice than it has been in a half century.

A *Portentous Spectacle*

THE most glowing and portentous spectacle in the world at this present moment, unless it be Russia groping its way grimly into a new social order, is the spectacle of this republic of ours, as it is likely to be shaped by the forces at work upon it and the realization that the most fruitful idea in this great process was the idea of democracy, and the most interesting mental and moral effort of mankind was the effort to interpret and adjust the democratic idea to the needs of freedom and modern progress. I sometimes think that the rest of the world sees even more clearly than we do the amazing national perspective and realizes more clearly America's gigantic influence in shaping modern civilization.

Allegory

*"THERE stands upon the steps of the Sub-Treasury building in Wall Street the bronze figure of an old Virginia country gentleman who happened also to be the richest man of his age. There he stands, looking out with fearless, honest eyes upon a sea of hurrying, gain-getting men. I consider that statue the most remarkable allegory and object lesson ever set up in exactly the right place in human history. George Washington * * * re-defines democracy."*

Let us unfold in barest outline the great panorama. First, a group of rustic communities, largely English and puritan in origin, making common cause, through the ordeal of war, in behalf of ancient guarantees of English freedom; then, suspicious colonies to whom the very word democrat sounded like Bolsheviki does to our ears, striving after some durable bond, amid the clash of jealous interests; then, two important paper writings, one a new and startling statement of pure idealism and human aspiration, the other a grave charter compact of high sense and human foresight and tragic compromise—The Declaration of Independence and the Constitution;—then, a young republic lacking the instinct of unity, virile, raw and wayward in its confident young strength.

Trial of Fire

SOME decades followed of earnest effort to pluck out an evil growth planted in its life by the hard necessities of compromise, but which must needs blossom into civil war before it could be plucked out and thrown to the void.

Then, young manhood, whole and indivisible, proved by trial of fire, opening its eyes upon a new world of science and steam and force, and seizing greedily every coign of vantage toward which the disadvantaged of every race and creed flocked as to a shrine and a safe harbor; and today the oldest unchanged government on earth, the most venerable republic in all history, the richest and most powerful of nations, the champion and exemplar of world democracy.

No nation, I venture to assert, was ever born grounded on so definite and fixed a set of principles with so conscious a purpose. Such a wealth of hope for humanity never before gathered about a mere political experiment, and such a mass of pure idealism touching man and his rights and his destiny, never before suffused itself into the framework of a state.

Robbed of Illusions

HOW can such a nation so begun, so advanced, so beset, fiulfill its destiny? How can a people devoted to individualism and freedom retain that individualism which guarantees freedom and yet ingraft upon its social order that genius for cooperation which alone insures power and progress? This I conceive to be the final interrogatory of the system we name democracy as a sane vision beholds it, robbed of all illusions.

Democracy, it should be understood, is not alone a political system under which the majority rules. It is a philosophy of life, a sort of social religion under which every man has the right and the chance to make the most of himself. The truth is that few of us have ever decided clearly just what democracy rests on, and I find that each man's conception of the great faith not only varies, but is an unconscious revelation of his own character.

Those Fateful Words

SOME conceive of a democrat as a man who eschews evening clothes and revels in a dollar dinner. Some think of him as a man who fancies himself as good as or even a trifle better than anybody else. Those fateful words liberty, equality, brotherhood, come nearer to touching the foundations of the great dogma than any other in my judgment, though,

of course, the idea of equality must be re-examined.

It is obvious that men are not mentally, morally or physically equal, but there is a root idea in the matter which claims for all sorts of men, high and low, strong and weak, rich and poor, a certain invisible sanctity or dignity which must be respected and nurtured. This root idea contains within itself a kind of religious or mystical quality, I confess, but it comes nearest of anything I know to being the rock bottom a democratic faith.

No Golden Mean

THE theory of democracy which alone among human movements, except perhaps natural science, has had no setback for over a century, is now being snarled at and denounced by vivid personalities and mighty forces, and once again is by way of being submitted to a merciless cross-examination by the mind and spirit of mankind.

Mussolini in Italy and Lenin in Russia, two really great men, have introduced new and anti-democratic schemes of government on a huge scale, and no man can deny that Benito Mussolini has brought new life and vigor to the great people of the Italian peninsula. He boldly claims that parliamentarism is windy and futile, and it sometimes is. He claims that the state is absolute and individuals merely instruments in its great tradition of strength and authority, that there is no golden mean between individualism and state authority, and that the concept of representative democracy lacks validity and that the mighty structure built here so confidently and grandly by the genius and devotion of Washington and Jefferson, Hamilton and Marshall, is a house built upon the sands and destined to be swept away by the winds and storms of social experience.

Aspects of Democracy

LET us concede that democratic society has its weaknesses which reveal themselves, I venture to assert, under five general aspects:

1. A disregard of obedience as a virtue too closely allied to servility.
2. A disregard of discipline as smacking too much of docility.
3. An impatience with trained technical skill as seeming to affirm that one man is not as good as another.
4. A crass individualism which tends to exalt self and its rights above society and the solemn social obligation to cooperate for the common good.
5. An impulse to standardization which threatens to substitute quantity and mass production for quality and excellence.

The central flaw of democracy, however, is that it does understand and sympathize with the soul of man, and is so sympathetic with the desire for personal freedom and self-direction, and so opposed to force as a molding agent, that it has not yet found the binding thread by which self-government and good government become one and the same thing. The manners of liberty cannot be the manners of absolutism.

The Final Thing

I HAVE faith in and I love democracy for the very weaknesses it has developed and the enemies it has made, for there is in democracy a tutelage which breeds love of justice. Justice itself is to statesmanship what beauty is to poetry—the final thing, the great essential without which all else is vain. Democracy, too, must rely upon methods of persuasion and debate rather than force or decree, and there runs through it a conception of life which makes it sweet to live.

In 1896 the country racked with discussion of what a dollar was and what sixteen ounces of silver to one of gold meant. "Coin's Financial School" appeared on our bookshelves and clear-headed men trembled for the national honor, but out of that fearful turmoil came widespread instruction, and I sometimes think the Federal Reserve Act, that wise charter of financial safety, could not have been written upon our statutes without the knowledge disseminated in that hectic campaign, and I venture to predict that out of the campaign we are now engaged in, out of its heats and rancors and discussions, will emerge some plan to secure for our social betterment the enduring benefits of the noble purposes inherent in the idea of prohibition, unmarred by the grave menaces that now threaten the country with lawlessness and internal discord.

Better Than Dictatorships

MUSSOLINI, whom I respect and regard as a patriotic man of heroic mold and steel will, calls his new state a "corporative state." I do not know just what that means as against a democratic state. If it means that a state is to be governed, however wisely, by edict rather than self-expression, *it* is the house built upon the sands, for a time will surely come when wise rules will be succeeded by unwise, and edicts will stir men to revolt.

Democracy, however it may muddle, has the capacity to pull together and keep together in emergencies better than dictatorships, and this after all is the supreme test. In the recent World War, I recall no democracies blown to bits, but I do recall three or four mighty empires and an assorted batch of mere kingdoms, swept into the discard. There is in the democratic system a self-adjusting quality almost automatic in its actions like a safety valve or gage on a boiler protecting itself against explosion and finding the way to fair equilibrium. Democracies may muddle, but they seldom explode.

Its Halo Dulled

NAPOLEON, "that ablest of historic men," as Lord Acton called him, revealed to the world the democratic passion and the fair vision of equality of opportunity and passed off the stage. Perhaps it is the destiny of some of these exploded monarchies and their ambitious new structures and rulers to teach us a better order and administration, to put us in the way of finding and achieving these desirable ends, without sacrificing our liberties, and then, they too will pass.

How just then, is the claim that democracy is a failure? It may be conceded that the halo about it has been dulled to men of little faith. Ought we not to try first to settle what it has done and place that to its credit? Ought we not to demand a better substitute before we write it down as a failure?

Democracy's Record

LET us seek to enumerate some of its accomplishments. Can anyone deny that it has abated sectarian fury? Sectarian fury, the fiercest of human emotions, is ridiculous in this age despite all efforts of the intolerant to kindle it into flame. Alfred E. Smith will not be elected or defeated for the American presidency because he is a Catholic.

Since I wrote this sentence some weeks ago I have been rather distressed and amazed to behold the degree to which religious intolerants have gotten themselves into politics. I have noticed a sort of growth, an ominous and sinister growth for some years, but I am not downhearted. It, too, will pass, like the Know Nothing folly of the fifties. It is just an ephemeral throwback to an illiberal age, a scheme of society in which men cannot seek the truth as they see it and then proclaim it, as a scheme of society branded with the deepest infamy possible to the human spirit, and all brave men should and will crush it.

I work daily under the shadow of the home of Thomas Jefferson. The other day I had one of the major thrills of my life. Everybody talks about the statute of Virginia for religious freedom, and nobody reads it—like they do the Constitution. The other day I took down Henning's Statutes of Virginia, an old book 108 years old, and there on its yellow pages I read and reread the statute of Virginia for religious freedom, the first enactment of such freedom in the history of the world. You are accustomed to think of statutes as dry. This statute differs from all others in that it glows with emotion, it sounds like a bugle, with an eloquence and logic, and I make bold to quote from it just a few words:

"The Preamble. Whereas Almighty God has created the mind free and all attempts to influence it by temporal punishments or burdens or by civil incapacitations tend only to beget habits of hypocrisy and meanness and are a departure from the plan of the Holy Author of our religion, who being Lord both of body and mind, yet chose not to propagate it by coercions on either as was His almighty power to do, we claim that our civil rights have no dependence on our religious opinions any more than on our opinions in physics and geometry, that therefore the proscribing by any citizen as unworthy the public confidence laying upon him an incapacity of being called to offices of trust and emolument unless he profess this or renounce that religious conviction, is depriving him injuriously of those privileges

(*Continued on page* 421)

The Banker's Responsibility

By ROY A. YOUNG
Governor of the Federal Reserve Board

Maintenance of Sound Conditions the Principal Responsibility. Federal System Must Shape Policy to Protect Gold Reserves From Too Rapid Depletion. Reserve System Concerned with Excessive Growth in Any Line of Credit. Banks Must Cooperate.

Best Guarantee

AT a time when national interest is centering upon the probable trend of business and credit, the ranking officer of the Federal Reserve System expresses this view: "It is my conviction that a healthy banking situation is the best guarantee of a healthy economic development in so far as it depends on the use of bank credit. It is toward sound banking conditions that the Federal Reserve banks must work in cooperation with their member banks and with other banks.

IF the economic life of the country be compared to the automobile, the natural resources represent the machinery and human endeavor the fuel. The function of the banking system in this machine would be to provide proper lubrication. Banks cannot create natural resources nor can they be a substitute for human labor, but they can work toward a more efficient use of resources and a more effective application of labor and thereby contribute to a smoother and more even-working of the mechanism to prevent overheated parts and possible explosions.

There is nothing in the country's business life that approaches the banks in the widespread influence of their activities, which are not confined to any particular line of commerce or industry, but reach and influence all lines of endeavor. It is for this reason that banking cannot be considered as a purely private business and so banks are supervised by government agencies and regulated by statutory limitations.

No Mystery

ESSENTIALLY the function of a bank is to convert a person's ability to pay in the future into ability to pay at once. A storekeeper who wishes to lay in a stock of goods may not be in a position to pay for all of them at the time, but will be able to pay for them after some of the goods have been sold to the public. It is the bank's function by lending him money to enable him to convert his future paying capacity into present paying capacity. This is a simple and fundamental function. It involves no great or complicated mechanism and contains no mysteries in its workings.

The great Dunbar said many years ago: "These functions imply no very complex operations. They require prudence, integrity and patience, but they have no mystery."

With this definition of the primary functions of banks in mind, let me analyze the nature and order of importance of their responsibilities. First and foremost, their responsibility is to their depositors who have entrusted them with funds and are entitled to receive them either on demand or on dates stated in their deposit contract. In order to provide additional safeguard for the interests of the depositors, the owners of the banks contribute capital, and to this they gradually add undistributed profits in the form of surplus. These funds placed by the owners of the business in a bank, vouch for the good faith of the proprietors. They are also a buffer between the bank's liabilities to their depositors and their claims on their borrowers. An adequate proportion of capital funds is, therefore, essential to the discharge of a banker's responsibilities.

Rarely a Kindness

MORE important, however, than the capital contribution is the exercise of care in making loans and buying investments. A bad loan is rarely a kindness to the borrower. Too many bad loans are a betrayal of the trust placed in the banks by the depositors. Therefore, the banker must discharge his responsibility to depositors by a careful scrutiny of his loans. If it were possible for a banker to confine all his advances in his own community to conservative and safe loans based upon production and distribution, with the assurance of assistance from the Federal Reserve bank for seasonal and emergency requirements, there could be no serious objection to his conducting his institution in such a manner. However, I know from my own experience that loans of this character are not always available and even if they were available, such a policy would result in the banker having his deposits employed only a part of the time.

Loans of a capital or speculative nature, made locally, even though they are good, do not always represent good banking. A bank should not be entirely dependent for solvency on developments in its own community, but should, in the great majority of cases, carry secondary reserves in the form of liquid investments—funds placed on deposit with out-of-town banks, commercial paper, bankers' acceptances or security loans, the liquidity of which depends upon the marketability of the securities back of the loan. A certain proportion of funds not directly dependent upon the developments in a community has come to be considered as a fundamental condition of sound banking.

Must Play the Game

SECOND to the banker's responsibility to his depositors is his responsibility to the bank's stockholders. They have contributed capital to the enterprise and are entitled to as large a return on this capital as can be obtained by safe and legitimate use of the funds. It is the universal acceptance of the priority of the depositors' claims over those of the stockholders that indicates the extent to which a bank is a public utility. Fortunately, however, the concern of stockholders about bad loans is greater than that of the depositors; in fact, depositors begin to be concerned about bad loans only when their magnitude is such as to endanger the bank's ability to meet its liabilities. Stockholders, on the other hand, are constantly interested in the success of the bank's operations, because every profit made by the bank increases the value of the stockholders' equity in the business.

Responsibility of banks does not end with their depositors and stockholders. Banks also have a responsibility to the community in which they are located and from which they derive their deposits. If a bank invests all of its deposits in outside loans and securities, it is not fair to its community. If its outside loans and investments are safe and profitable, it is dealing fairly with its depositors

and stockholders, but it fails in its responsibility to its own community. In so far as the use of a bank's funds in its own community is consistent with safety, local industries and enterprises are entitled to the first claim on these funds.

This does not mean that bankers must be philanthropists. It simply means that their self-interest must be intelligent and far-sighted. For if a community should be constantly deprived of its funds by investment outside, sooner or later this is bound to arrest its growth and prosperity. Ultimately it would lead to a drying up of the flow of deposits which supplied the bank with funds for its operations. The responsibility of the banker to his community is an application of enlightened self-interest. In popular parlance, the banker must play the game and do his bit in the community's work.

Public Paramount

AT this point I want to consider in what way the Federal Reserve banks enter into the picture. Their capital, as you know, is supplied by their members. They are, in substance, a cooperative enterprise among banks for the purpose of taking care of seasonal and emergency needs for credit and currency. They prevent excessive strains by lending the support of the financial strength of the entire system to the needs of any community that requires and is entitled to it. Even more than the commercial banks, the Federal Reserve banks are public institutions and the public interest is paramount in their responsibilities.

It is the business of the reserve banks to see to it that there is no shadow of doubt cast upon the validity of their note issue. The reserve banks must also safeguard their own deposits, which are the reserves of the other banks. These deposits must be used in such a way as not to permit the slightest doubt of their immediate availability upon demand. It is for this reason that the Federal Reserve Act prescribes rigid limitations about the use of reserve bank funds. While the direct responsibility of the reserve banks on deposits is to their member banks, it goes beyond that. It extends to the depositors of the member banks, because the safety of their funds depends to a certain extent upon the safety of their reserves carried with the reserve banks. Back of these reserve balances of the member banks are the reserves of the reserve banks themselves. These are the ultimate reserve basis of our entire banking structure. An all-important responsibility of the Federal Reserve System is the conservation of these reserves upon a proper gold basis.

FOR $100 of deposits carried by a member bank, the reserve bank receives on the average about $7.50 as a reserve balance. Against this reserve balance of $7.50 the reserve bank must hold about $2.50 in gold or lawful money. Thus the $2.50 held by a reserve bank is the basis of $100 of member bank credit. This in turn may be the basis of a still larger amount of non-member bank credit, because a large part of the reserves of non-member banks is held with member banks. This apparently narrow base of our credit structure is sufficient for safety only because of the cooperation of the banks through the Federal Reserve System. It emphasizes the extent of the responsibility of the reserve banks in protecting these reserves. The reserve banks must take a far-sighted view of the needs of the community and must maintain a stock of gold sufficient to provide for the country's growing needs.

It is, therefore, a responsibility of the Federal Reserve System to shape its policy in such a manner as to protect our gold reserves against too rapid depletion. During the past year we lost $500,000,000 in gold, and no one knows whether the redistribution of gold has been completed or whether the United States will lose additional gold to the rest of the world. Our gold reserves at the present time are $1,000,000,000 in excess of the legal requirements and it is fortunate that they are, because it puts the bankers in a position to handle further export movements of gold if they should develop and to meet the growing credit needs of the country.

The loss of gold for the past year has been a desirable thing, not only from the point of view of those who received it and used it as the basis of monetary reconstruction, but also from the point of view of the United States. It has removed from the foreign trade of the United States the risks arising from unstable exchanges and disorganized conditions among its foreign customers. The Reserve System's responsibility is to make such use of its reserves as are in the interests of the country in the broadest sense of the word. This involves close attention to developments both here and abroad and makes the framing of Federal Reserve policies not only a matter of national but of international importance of the first magnitude.

Undue Demands

THE Federal Reserve System has also a measure of responsibility for the rapidity of the growth of bank credit in this country, although the experience of the last fourteen years has demonstrated conclusively that this movement frequently attains such momentum that it is some time before Federal Reserve policies become effective. The methods at this disposal of the Reserve System to accomplish these ends are primarily changes in discount and open-market rates and open-market policies in the purchase and sale of government securities. Through these means the system can be an influence toward easier or tighter conditions in the money market, even though the influence may be slow in operating. It can, therefore, to a certain extent, encourage or discourage the growth of bank credit.

All loans and investments of the member banks result in the creation of deposits. The growth of deposits in turn increases reserve requirements of member banks and when these are met by rediscounting, reserve policies and rates begin to be effective. It is a mistake, therefore, to assume that only one or another class of loans or investments may be supported by the reserve banks, while other classes of loans and investments may not.

Since the Federal Reserve banks furnish the basis of credit growth in any field, whether it be commerce, industry, agriculture or the trading in securities, the Reserve System feels concern about excessive growth in any line of credit. It is impossible for a reserve bank to earmark the credit it releases, but when too rapid growth in any line of credit threatens to upset the financial structure of the country and make undue demands on the reserve funds, which should be conserved for the legitimate growth of the country's business, the Reserve System can properly use its influence against these undesirable developments.

The Best Guarantee

WITHIN the limits of its powers, the responsibility of the Federal Reserve System is for the credit structure as a whole. A healthy banking situation must be forever the primary concern of the managers of the Federal Reserve banks and of the Federal Reserve Board. These responsibilities are sufficient to require our best efforts in the determination of the wise course of action. This is one of the reasons why it would be unfortunate if the Federal Reserve System were to be charged with still further responsibilities which are not directly related to banking, such as responsibility for the stability of the general price level or for the moderation of ups and downs in business conditions.

It is my conviction that a healthy banking situation is the best guarantee of a healthy economic development in so far as it depends on the use of bank credit. It is toward sound banking conditions that the Federal Reserve banks must work in cooperation with their member banks and with other banks which are a part of our banking structure. In my opinion, the country's entire banking system, from the smallest country bank to the greatest financial institution, and this includes the Federal Reserve System, can best discharge its public responsibility by concentrating its efforts on the maintenance or sound banking conditions.

The mortgage banking business has become highly competitive because so many organizations are engaged in it. In addition to insurance companies, banks, mortgage companies, realtors, building and loan associations, the McFadden Banking Act has added another factor, the national banks that now handle mortgage loans. This competition will lead in many instances to excessive valuations unless steps are taken to unite these various groups and establish methods and policies on which all interests can meet on common ground.—Hiram S. Cody, vice-president, the Cody Trust Company, Chicago.

Upholding the Hands of Moses

By H. L. RUSSELL
Dean, College of Agriculture, University of Wisconsin

Agriculture Envisioned as Requiring Strength, Not Panaceas. Schemes for Aiding Farmer Considered Futile Without Recognition of Fundamental Ills. Reapportionment of Tax Burdens and Reduction of Capital Values Advanced as the Basic Needs.

OF course everyone knows who it was who held up the hands of Moses and why they did so. But let me restate the Biblical story so that recollection can be checked with the record.

The children of Israel were wandering in the wilderness, seeking to find their way to the promised land of Canaan. Moses was their leader to whom they constantly looked for help. If trouble brewed, to him they fled for protection. One day in watching the battle between his general, Joshua, and the enemy, the Amalekites, it came to pass, as the narrative goes (Ex. 17.11).

> "when Moses held up his hand that Israel prevailed; when he let down his hand Amalek prevailed. But Moses' hands were heavy; and they took a stone and put it under him and he sat thereon; and Aaron and Hur stayed up his hands the one on the one side and the other on the other side: and his hands were steady until the going down of the sun. And Joshua discomfited Amalek and his people with the edge of the sword."

Thirty-four centuries have come and gone since this historic episode occurred, but throughout all these centuries people have been looking for a Moses, someone to lead them from the land of bondage into the promised land that is flowing with milk and honey. First it was religious freedom that they sought, freedom to worship the God of their choice in their own way; then it was political freedom, an effort to emancipate themselves from the bondage of autocratic rule, where the divine right of kings held sway. Then social fetters bound and the masses prayed for a Moses to break these. But always the economic bonds have chafed. The shackles of debt, disappointment and despair have bound mankind to the wheel of fate from which escape has never been fully realized. The hands of Moses grew heavy and Amalek prevailed.

No Universal Panacea

IN our economic life today some classes are more sorely beset than others. The farmer thinks he is the worst off of any of the industrial groups and perchance he is. But some of the extractive industries are likewise in dour straits. The soft coal industry, which has been termed "the worst functioning industry in the country" is thoroughly disorganized; likewise the crude oil industry through overproduction has been in a depressed condition for more than

The Farms' Need

SUSTAINED support instead of intermittent efforts to aid is what Dean Russell, an authority on agriculture, proposes for the revitalizing of American farming. Likening the farmers to Israel he drives home the lesson of the futility of temporary expediencies, insisting upon a non-political treatment of the problem which will go to the root of the trouble to reorganize agriculture under the same principles which would be applied to any other industry. To this end the A.B.A. is asked to aid.

a year, although it now looks as if the corner had been turned through voluntary curtailment of production. While business is booming in many lines certain other industries are marking time or wallowing through the slough of despond. They cry aloud for Aaron and Hur to hold aloft the hands of their leader so that economic justice and success may prevail.

Everyone is looking for a remedy for the agricultural troubles but to this problem there is no universal panacea for the fundamental reason that American agriculture is not a single industry like the making of shoes or steam engines any more than the American people are a single racial stock.

A country covering 3,000,000 square miles, spanning twenty-five degrees of latitude is as diverse in the United States as it is in Europe or the Latin Americas. No one thinks of securing a solution to Italy's problems that is equally applicable to Norway's ills.

What would perchance apply to cotton would not be applicable to tobacco. The vegetable oils of the South, from the cotton and the peanut are direct competitors of the dairy products of the North. Why expect a remedy that can be universally applied! Patent medicines that will cure all the diseases that flesh is heir to from fistula to fits bring a good price and find a sale where ignorance and a lack of appreciation of medical science yet obtain, but with intelligent and thinking people they are passed by for the services of the medical clinic.

The basic difficulty with agriculture is a lack of adjustment between what is produced and what is consumed. Most people are wont to consider that the problem is generally one of overproduction and this is often the case, but underconsumption is likewise potent in producing a surplus as is overproduction. When both of these forces pull in the same direction then the effect is materially heightened.

Agriculture in the main deals with the consumer's demand for food, but this is a necessity that has its positive limitations. In this respect food production is definitely limited in its possibilities of expansion when compared with the consumer demands for raiment, shelter, recreation and satisfaction of intellectual requirements. We can only eat with safety three meals a day. Even Mr. Rockefeller with all of his millions probably consumed less food than the humble laborer who may be in his employ, but Mr. Rockefeller can drive a finer car and spend more for books and paintings, can dress better, but these demands, however, are filled not by the farmer but by the city industries.

Stimulating Vitamines

ADVERTISING can and does divert our attention from one source of food supply to another, but all of these campaigns that have as their objective eat-more-of-this food merely results in eat-less-of-that food. Shrewd advertisers always essay to introduce a health appeal, but if an apple a day keeps the doctor away, it means less orange juice used.

No food products probably have profited more from the advertising point of view as to their health qualities than have dairy products. The discovery of the health stimulating vitamines with which milk is so richly endowed has enormously increased the per capita con-

sumption of dairy products within recent years, making it possible to keep consumption in balance with expanding production.

One reason for this lies in the fact that while milk is the single product of the dairy cow, this raw material is utilized in many different ways that are non-competitive. Butter and cheese each take a different position in the diet. Ice cream competes with neither. The rapily expanding use of fluid milk as a food as well as a beverage has materially increased the per capita use of milk in this particular form. Within the past decade the annual consumption of all dairy products per person expressed in pounds of milk has risen from 768 pounds in 1916 to 956 pounds, a quarter increase. What other phase of agriculture can make such a showing?

The Streamline Waist

THIS has been a more potent factor in utilizing the steadily increasing output of milk from the herds of America than has the increase in population. While the total production of milk has steadily increased there are fewer dairy cows in the United States now than five or six years ago. This is indicative of the improvement in the efficiency of production on which successful dairying is predicated. The cost of milk, or more accurately the cost of fat (for after all butter fat registers values more correctly than any other standard) varies mainly with the fat output of the animal. When we consider that the average annual production of butter fat in the United States is only about 180 pounds per cow and that many good dairy herds average from 400-500 pounds per animal, one can appreciate what an enormous variation must exist in the actual cost of producing butter fat on the different farms in any section. Dr. Woods of the Federal department at Washington is authority for the statement that at least a third of the 22,000,000 dairy cows are now producing butter fat at a loss.

I wonder if we really appreciate how food habits are changing in these modern days. Slenderizing which has become so fashionable in certain circles today is materially reducing the per capita use of food with a large group of the population. The streamline waist is bad for the American farmer. Congress ought to do something about it. Either of the political parties overlooked a good chance to put a plank in their platforms making this an issue for the present campaign. The farmer vote should have been solid for the man who had such an appealing platform.

Competes With By-Gone Ages

THE wide use of the automobile has lessened the necessity for heavy foods with a consequent reduction in the per capita amount of meat that is consumed. In 1915 the per capita use of meats in the United States was over 154 pounds a year; in 1925 it had been reduced to 132 pounds, a loss of 15 per cent. Practically this reduction offsets the natural increase in population.

The calories of energy now consumed are increasingly more from the gasoline engine rather than from human muscle. Even eighteen holes of golf don't demand a thresher's appetite. The American farmer of the twentieth century is hard pressed trying to compete with the animal and plant life of by-gone ages from which the rock oils of the carboniferous epoch were laid down in the depths of the earth.

Not only has the motor reduced our food requirements but it has greatly modified other human needs. The hide and leather business has had to face a marked reduction in the use of men's shoe leather since we no longer have time to walk. A pair of shoes now lasts a man much longer than they used to for the soft turf of the golf links or the velour carpeting of the motor car does not wear out sole leather like concrete pavements. What we save in shoe leather, though, we more than spend in rubber tires. But this helps the brown skinned native of the Malay jungle, not the American ranch man who has hides to sell.

Effect of Vogue

THE dire plight of the cotton textile industry is in no small degree attributable to the reduced per capita use of cotton. As the skirt grows shorter the silk mills thrive; American cotton gives way to Oriental silk, or if it competes with rayon, the raw material is largely wood pulp from the forest rather than from the cotton fields of Dixie.

The disturbing effect of vogue is fully as great a menace to industry as a glut in the food supply. Thousands of Chinese women in Chefoo were thrown out of employment in making hair nets when the fashion of bobbed hair came in some years ago. The style saved the American barber from impending extinction which was threatened by the rapid spread of the safety razor, but with the result that it made tough sledding for the Chinese.

In the main, food requirements are directly related to population increase. But agricultural production in recent years has piled up faster than ever. The total food supply produced in the last four years has been 14 per cent greater than it was for the four-year period from 1917-21. During this period population has increased less than 9 per cent. In other words increase in food production has outrun population expansion by 50 per cent. Yet this increased production and resulting surplus was grown on 13,000,000 less acres in 1925 than were used for the crop of 1919.

Wider Use of Machines

ON the other hand the American farmer has increased materially his efficiency as measured by man-power output, the same as has been the case with almost all types of industry. The increasing cost of labor has spurred up the wider use of labor saving machines. The government figures show that agricultural production has increased its output, per unit of labor employed, 18 per cent for the past five years as compared with the previous five-year interval.

Take two staple American farm products, one a food supply, wheat, the other a fiber crop, cotton. The introduction of the combined harvester-thresher has reduced the cost of harvesting wheat from about $4.25 to $1.50 per acre. Five years ago in the great wheat states beyond the Missouri river, the percentage of wheat harvested by this machine was practically negligible. Today over one-half of all the wheat in the bread-growing state of Kansas is garnered with this labor saving device. A few years ago it took 120 days of man labor to handle a 400-acre wheat farm; today the man labor outlay is reruced to thirty days.

The same effect is seen in the new "sledding" device for the picking of cotton, especially in the drier cotton fields of Texas. The negro tenant, a mule and ten acres of cotton used to be the standard economic unit. With the help of his family he could harvest about 150 pounds of cotton a day. With the four-row planter, the four-row cultivator, and the "sledder" to pick, the unit acreage per man in Texas is about 200 acres. With this picker a thousand pounds of cotton a day can be harvested. Is it any wonder that the Lone Star state now grows 40 per cent of the entire cotton crop of the United States?

Utopia Far Away

FROM the standpoint of the individual, increased efficiency in production will always be within the limits of the attainable, and those who are best succeeding in agriculture today are those who through foresight and management are able to turn a profit from their labors. Probably in no field is there so wide a range in cost of production as in farming. Whether it is with wheat, cotton or hogs, the range in cost of production between different farmers living under the same conditions will often result in costs that will vary from 50 per cent to 100 per cent. Such a range in most lines of manufacturing or business would put a concern in the bankruptcy courts. The farmer, however, hangs on longer, because he cannot unload on someone else and if compelled to, he can take it out on his wife and children through a lowered standard of living.

Maximum efficiency, however, practised by the mass rather than the exceptional individual means for agriculture as a whole greatly increased production, an added supply that our markets cannot readily absorb, with the consequent decline in prices and profits.

This Utopia of widespread efficiency in production is, however, not likely to obtain rapidly in any general degree and doubtless in the future, as in the past, the method by which the better farmers in the main will rise in the economic scale more rapidly than their fellow is through individual improvement.

Many people lament the constant shift of the country population to the city and regard this as an index of a decline in agriculture. Such a conclusion is far from being justified. It is a healthy condition when the ebb and flow of human improvement is thoroughly elastic. The press is apt to emphasize that the movement is all cityward, but the facts show that the tide is in both directions. For the past five years about 2,000,000 people a year have left the farms for the cities and towns, but during that same time the back flow has exceeded 1,000,000 a year with the net result that the farm population has decreased about 6 per cent from 1920 to 1925.

The machine has more than replaced most of this human brawn on the farm and would one say that it was necessarily to the detriment of the farm? It is not so much a question of how many go to the city as the character and quality of those who do go. If the city draws to itself the best that the country breeds and leaves only those with less initiative and ability, then it spells ultimate decline, but if increasing efficiency in man power output is a measure of business ability it cannot be said that American agriculture has sunk to a lower level than it earlier occupied.

Inexorable Laws Prevail

THE improbability of controlling crop production by any concerted means on the 6,000,000 farms of America is so great that no one as yet has been wise enough to work out a satisfactory plan. The lumber, the oil and the coal industry have found restrictive measures of a voluntary character difficult to maintain. If business were definitely to control production by agreement, they would find themselves in conflict with the government under the law forbidding combinations acting in restraint of trade. The inexorable laws of an economic character ultimately will prevail, and unless surpluses can be consumed or prevented from occurring, disaster impends.

It is certainly a travesty on our business sagacity when deliberate destruction of farm products is resorted to as was the case some years ago when bales of cotton were burned in the public squares of some of our southern cities as a protest against lowering prices. The Nebraska farmer found a better way five or six years ago to utilize his excess corn crop when he used corn for fuel because it was worth less than what coal cost. But even this disposal is a misuse of food supplies.

Some of the factors governing production are well within the control of man. Hence if he does not exercise good judgment in this regard he has no one but himself to blame. The stimulus to overproduce because of high prices is the tendency that is most difficult to control, yet this is where the majority of the farmers suffer most. If prices of any product are above normal, the inevitable tendency is to expand operations. Where each individual acts separately under the same economic stimulus, the mass effect is an expansion in acreage that cannot but react disastrously.

Smothered in Kindness

TAKE the present situation with the potato crop, a food product that is subject to unusual variations in value by reason of its perishability and wide range of productivity. During the years 1925 and 1926, prices were favorable (average farm price $1.87 and $1.41 per bushel), but this price stimulus led the next year to a 12 per cent increase in acreage (about 375,000 acres from a base of 4,122,000). Production shot up above 400,000,000 bushels in the aggregate, but the distribution of this large crop happened to be sufficiently spotty so that most of the crop moved at a fairly satisfactory figure (96 cents per bushel).

Under these conditions the government tried to impress caution on the growers this spring, urging them not to increase acreage still further. Forecasts based on "intention to plant" presaged a still larger increase in acreage. In spite of this direct warning the national increase in acreage this season was nearly 350,000 acres in addition to the 375,000 acre increase of the year before.

This year we have had a good growing season, one in which nature has been kind, but the American potato grower now finds himself smothered in kindness with a prospective crop that is estimated on Sept. 1 at over 466,000,000 bushels.

Weather Potent Influence

WHEN the American crop approaches four bushels per person, trouble is sure to occur. The present market is opening at 30 to 40 cents per bushel, which is not enough to cover costs of production. The probable total value of this enormous crop will undoubtedly be $100,000,000 less than what it would have been had there been an unfavorable season in which 50,000,000 bushels less had been grown.

Where production is confined to a limited group of individuals as in many manufacturing lines, or limited geographically to a localized section as with certain crops or industries, the common interests of such groups can be exercised in some measure through organized effort. Even the organized oil industry in spite of the fact that it is largely in the hands of large corporations that are supposedly able to do anything they want to accomplish, finds it impossible to control "wild catting" except by the operation of unprofitable price levels.

How is it then possible with millions of growers scattered over the forty-eight states that are growing such a perishable crop as is the potato to meet a situation in which the hazards of weather bulk so large? Some economists have suggested that a Federal farm board could control this situation by stabilizing the acreage planted, but what board can control the weather which may exert even a more potent influence on production than the difference in acreage planted? Even Congress cannot legislate so as to out-maneuver the weather. As Mark Twain says we have been talking about the weather for a long time, but no one has yet done anything about controlling it.

Goes to the Wall

THE government did all that it could do when wide publicity was given to the statistical situation as shown by the "intention to plant" census and yet last year a move developed in Congress to stop the government from publishing forecasts of production with reference to cotton. Somebody did not want too much information given the public about the total crop prospects.

It is under such conditions as those just noted that the unfortunate grower goes to the wall for taxes, interest, and the cash costs of production must be met. Either he is often squeezed out completely or hangs on by reducing his living standards.

It is readjustments of this type that have made the sore spots in farming. Orderly marketing may be offered as a help. Cooperative endeavor has been put forth as a panacea, but no formula can be blindly followed on the assumption that it is certain to lead to the promised land. Not even the California cooperatives which are often heralded as the most successful illustrations of the efficacy of organized agriculture are always able to control production. Look at the predicament of the raisin growers. The high prices for grapes from 1919 to 1921 greatly stimulated plantings. In three years' time 220,000 additional acres were planted in that state with the inevitable result of a market glut. In spite of the development of foreign markets and an expansion of domestic outlets, even the cooperatives were unable to hold their own people in line with the result that there are now 100,000 tons of the 1927 crop on hand with a 300,000-ton crop maturing on the vines.

Mortgage Lifters

A THOROUGH knowledge of the fundamental principles of economic law is the basis on which the individual must act after all in the prosecution of his business, whether it is growing potatoes, making binders, or running a bank. We would all welcome a Moses who would get us out of trouble after we are once in. If only our foresight was as good as our hindsight perhaps we could be our own Moses. We might not need the help of Aaron and Hur.

The deflation in farm values of some crops has already gone so far that instead of overproduction existing at the present time, there is actually a shortage in certain staple food products. Certainly surplus production cannot now be said to exist in the live stock industry.

Not with beef at $18 a hundred, the highest price since the war. If you still think the price of beef is where it was two or three years ago when all the western feeders were going broke and the bankers and cattle loan companies

(*Continued on page* 394)

JOHN G. LONSDALE

First Vice-President American Bankers Association and President National Bank of Commerce in St. Louis

Dawn of a New Economic Era

BY LEONARD P. AYRES
Vice President, The Cleveland Trust Company

Banks Advised to Adjust Themselves to Changing Conditions. End of Golden Age Forecast From Recent Shipments of Bullion. New Investment Policy Urged Through Shift of Bank Funds to Bonds or Paper, Whichever Is More Profitable. Future Secure.

PROBABLY the most important business and banking fact of 1928 is that we have lost $500,000,000 of our monetary gold. This is about one-ninth of our total gold stock. Only once before in our history have we had a loss of gold comparable with this one, and that was in 1919 and 1920 when gold exports amounted to almost as much as they have this time. On that occasion, however, the loss was speedily made up by a return flow of gold, and this time it seems unlikely that anything of that sort will happen. It seems more probable that most of this loss will prove to be relatively permanent.

If this proves to be the case, the year 1928, may well turn out to be the end of one economic era in this country, and the beginning of another. The era which it will bring to a close will be the fourteen-year period from the outbreak of the World War up to this present year, which has been for the most part a time of great credit expansion based on huge gold imports. No one can foresee what the next few years will be like in a business way, but it is safe to say that they will be very different from those that are just behind us.

The fourteen years that have elapsed since the outbreak of the World War have been in reality, as well as figuratively, the golden age of American business. When the great war began we had in this country something less than $2,000,000,000 of monetary gold, which constituted then, as it does now, the basis of the credit supply with which we do business. During the first few months after the declaration of war in 1914 gold flowed out from this country, so that by the end of that year we had lost some 4 per cent of our holdings. At the same time we experienced a severe business depression.

Gold Builds Wealth

THEN gold began to flow in again, and this continued until in a little more than two years our gold stock had increased by over 70 per cent. War orders came in also, and there ensued a period of business activity and industrial prosperity such as neither this country, nor any other country, had ever before experienced. Industrial profits rose to undreamed-of heights, our national income doubled, and our national wealth increased prodigiously.

The Road Ahead

ONE of America's foremost observers of business trends assures us that despite the loss of half a billion dollars of gold we may look forward to the longer future with confidence, for we still have a larger supply of gold in proportion than has any other country, and we have a central banking system that is probably more effective and efficient than that of any other country.

A period of readjustment to new conditions probably lies ahead,

The gold that came in during the war is mostly still here. We lost some of it in the price inflation period of 1919 and 1920, and that loss was again closely followed by a severe business depression. However, the tide turned promptly, and in the four years following 1920 we gained more gold than our entire national holdings had been when the war began. This increase was in addition to most of the tremendous imports of 1915 and 1916 before our own entrance into the conflict.

During these years since the outbreak of the war our gold holdings increased about two and a half times. The volume of credit extended by our banks advanced in closely similar proportion. The interest and dividend payments of our corporations increased about two and a half times. Our national wealth per capita also increased about two and a half times. It is apparent that there has been a close relationship between the rapid increase in our gold holdings, the consequent rapid growth in our volume of bank credit in use, and finally the vigor and rapidity of the growth of our national wealth and prosperity.

Expanded Credit

IT was inevitable that the great gold imports should enormously increase our prosperity, and our business and industrial activity. Gold is the basis of our credit system. When an importation of gold enters this country it is received by one of the commercial banks, which promptly deposits it with a Federal Reserve bank, and gets a credit for the amount which it adds to its reserves. This addition enables the commercial bank to increase its loans, and very shortly each newly arrived dollar of gold has brought into existence ten dollars or more of that new credit which we commonly refer to as money. It is not to be wondered at that we have been prosperous since the outbreak of the war, nor is it astonishing that our prosperity was sharply interrupted when we temporarily lost some $450,000,000 of gold in 1919 and 1920.

If anyone questions the importance of gold imports and exports as related to the prosperity of the country, he will do well to seek in the reports of the Comptroller of the Currency the figures showing our gold holdings, and the amounts of the deposits in all American banks from 1914 up to the present time. He will find that during that entire period the volume of bank deposits has been about ten times as great as the amount of our gold holdings. This means that every time one dollar of gold has been imported someone has shortly thereafter had ten dollars more deposited to his credit in some bank than he had before. Moreover since bank loans and investments are considerably larger in amount than bank deposits, the arrival of each new dollar of gold has meant that bank credit in use has promptly expanded by about twelve dollars.

Contraction Painful

MOREOVER an examination of these same two columns of figures in the Comptroller's reports, showing our gold holdings and the totals of deposits in our banks, reveals another fact that arrests the attention. It is that our gold holdings decreased by $300,000,000 from the middle of 1919 to the summer of 1920, and then that bank deposits decreased by about $2,500,000,000 from

the middle of 1920 to the summer of 1921. This means that on that occasion every time one dollar of gold was exported someone shortly thereafter had about eight dollars less in his bank deposit than he had before. The expansion of bank credit through gold imports is pleasant, and produces contentment. Its contraction following gold exports is painful, and results in discontent.

Another fundamentally important factor besides gold movements has been shaping our business and financial history during these same fourteen years. The Federal Reserve System came into existence the year that the great war began. Under its leadership our banking and fiscal systems passed successfully through the stresses and strains of the war period. Even if there had been no war the advent of the Reserve System would have operated to increase the credit resources of this country, because the System made our gold reserves more efficient than they had been under the former banking system. What actually did happen was that two sets of factors combined to increase American credit resources. In the first place we received from abroad huge and unexpected increase to our stock of money gold, and in addition to that we changed our banking system so as to use those swollen gold reserves more efficiently than ever could have been done under our pre-war banking system.

May Buy Securities

DURING 1927 and 1928 we have lost about $500,000,000 of our gold, or about one-ninth of our entire stock. All that gold had been used as the basis of banking credit which is still outstanding. The $500,000,000 that is gone was used while it was here to support perhaps $6,000,000,000 to $7,000,000,000 of bank loans. If it had not been for our Federal Reserve System its departure would have brought about a severe business crisis. But one of the functions of the System is to meet emergencies, and it has effectively done so this time.

The bank credit is still outstanding, but while it was formerly based on the gold, it is now supported by an equal amount of loans that the member banks have secured from the Federal Reserve Banks. How these loans are to be paid off is a serious question which must be answered in the main by the bankers who have received them. Perhaps they will be reduced in part by the receipt of new importations of gold, but that does not appear likely to happen on a large scale. Possibly member banks will continue in debt to the Reserve System in larger amounts than those to which they have been accustomed in the past, but that does not seem either probable or desirable. It may be that the Reserve Banks will increase their holdings or securities, and so by their open market operations enable member banks to reduce their indebtedness. Perhaps a deflation of outstanding credit is impending. It seems probable that all four of these developments will take place.

However this may prove to be, the fact that has the most important bearing on the future prospects of banking and business in this country is that heavy and regular imports of gold seem to be things of the past. During more than two-thirds of all the months from the beginning of 1915 to the end of 1927 our stock of monetary gold increased, and most of that increase came from imports. The rest of the world was shipping its gold to us, and making us rich. These imports have now ceased, and heavy exports have taken place. The present prospects are that we shall be compelled to earn the future increases in our gold reserves by working and saving in full competition with the other nations.

At Long Last

IF this turns out to be the case it means that important changes are coming in American life. During the past four years this country has enjoyed a redundant credit supply such as no other country ever had. We have been able to finance simultaneously a business boom, a building boom, a Florida boom, and a stock market boom without the slightest trace of a credit stringency. Our Federal Reserve System has probably been the only central bank that has for years at a time had no need to take precautions looking to the safeguarding of its reserves, and has only needed to concern itself lest credit should be used unwisely.

Now at long last all this has changed, but the transition to a new and more sober era is not going to be easy. The American people are in a mood of invincible optimism. Three years ago they were speculating in Florida land, and finally that bubble burst. Then they speculated in urban real estate, and now they are finding that the rents that are obtainable will not justify the prices to which property had been bid up, and as a result city real estate prices are rapidly coming down. Now they have turned to the stock market where prices of the stocks of mail order houses, chain stores, motor companies, and soft drink firms are selling on a basis to yield half as much as the obligations of the United States Government. Probably it can be mathematically demonstrated that on a yield basis the prices of representative groups of industrial stocks are now selling literally twice as high as similar stocks have ever sold before at the tops of the most excited of previous bull markets.

Prices Too High

STOCKS are now selling on expectation rather than on realization. All the experience of the past points clearly to the conclusion that prices are too high, and must come down. The public appears to be mistaking the past for the future, and confidently believing that the credit inflation based on the gold that is gone will somehow suffice to support the market prices for their stock equities until something else can take its place. No conclusion is more safe than that the speculative markets in their present mood would promptly sop up for stock margins any additional credit that the Reserve System might make available, if it should attempt to ease off the present credit stringency.

However, our concern here and now is not about what may happen in the stock market. We know that all exceptional waves of speculative fever ultimately run their course and flatten out. Our concern relates rather to the problems involved in shaping a bank's investment policy for the new economic era which we appear to be entering. It is safest to assume that this new era will be one in which gold imports and exports will be smaller in volume than those of the years since 1914. Probably they will mostly result from the normal transactions of international trade, instead of being caused by the collapse and rehabilitation of the fiscal systems of foreign nations. It is likely, too, that future waves of exports and imports will in general more nearly counterbalance one another than they have in the recent past.

One Simple Rule

IF this type of development takes place we shall probably enter upon a period in which bond yields and short-term money rates will once more have relationships something like those that maintained in the years before the war. The old records, as far back as one may care to follow them, conform to one simple rule which probably embodies the basic principle which should guide the bank in shaping its own policy for the investment of its secondary reserve funds. That rule is that it is profitable to shift funds into short-term paper when the discount rates on that paper are higher than the yields available from high-grade bonds, and to get out of the short-term paper, and repurchase high-grade bonds, when bond yields are above short-term paper yields.

This rule, when stated that way, sounds almost too simple to warrant such discussion. It is merely to shift funds from bonds to paper, and from paper back to bonds, whenever the published yields show that the shift would be profitable. Nevertheless the rule, if followed, is likely to save the bank from important losses in its bond account. The reason for this is that bond prices tend to fall during the period that the short-term paper rates are higher than the bond yields, and they tend to rise during the time that bond yields are above the paper rates. If the shifts are made when the two classes of yields cross one another, the bank will get the advantage of the advances in bond prices at times when they are rising and avoid the losses when they are declining.

When to Change

PROBABLY the easiest way to apply this rule is through watching the data supplied monthly in the reports of the Standard Statistics Company. The change in policy should be put into effect when the rate on four to six months

(*Continued on page* 372)

The Clearinghouse Section

Wide Range of Clearinghouse Activity Reflected in Problems Discussed at Annual Meeting in Philadelphia. Possibilities of Federal Supervision of Brokers' Loans Forecast. Programs Aimed at Development of Better Banking Methods Sanctioned.

FIRST of the division meetings of the Philadelphia convention to assemble, the Clearinghouse Section was called to order on Monday morning by President O. Howard Wolfe, cashier of the Philadelphia National Bank.

A program reflecting the wide range of clearinghouse activity was presented. Attention was given to special problems such as interest rates and the increasing of the efficiency of bank management through closer study of bank operations by directors. In the field of general banking the section was given an expression of views on the money and credit situation from the Washington standpoint which revealed the interest on the part of leaders in Congress in the brokers' loan problem.

At the outset of the meeting reverent tribute was paid to the late Alex. Dunbar, of Pittsburgh, President of the Clearinghouse Section in 1925 and 1926, who died on June 26, 1928. A resolution of appreciation of Mr. Dunbar adopted by the Council of Administration of the Pennsylvania Bankers Association at its meeting in Philadelphia in July was read by President Wolfe and the meeting of the Section stood for a moment in respect to the memory of its former president.

Thomas R. Preston, President of the American Bankers Association, was introduced to the meeting by Mr. Wolfe.

"This Section," Mr. Preston said, "is really doing great work. I have had an opportunity to come in contact with the work they are doing for the last two or three years in a way that I never knew before, and with the risk of embarrassing your President, I want to tell you one thing. It may seem a small thing, but the standardization of checks originated with the committee of which he was chairman, and it is now estimated that more than 90 per cent of all the checks given in this country are of standard size, and to show you how far-reaching such a little thing may be, it is estimated that the standardization of checks will save the commerce of this country fifteen million dollars annually.

The Only Trouble

"ANOTHER thing that you gentlemen are doing, that all bankers and the public are very much interested in, is the regional clearinghouses. The only trouble with that is I think we need about 250 regional clearinghouses in this country.

William F. Augustine
Vice-President National Shawmut Bank, Boston, Mass. Incoming President of Clearinghouse Section.

"That is going to be a far-reaching and a beneficial thing if we can get that idea over to the banks all over this country.

"I want to tell you another thing. Banks are beginning to realize now that they are not benevolent institutions. This organization is very largely responsible for that. Nearly 13,000 banks in the United States today are employing what is known as a service charge, in more than 1,200 towns and cities.

Introduced by Mr. Wolfe as "a distinguished Pennsylvania banker," the Hon. Louis T. McFadden, chairman of the committee on banking and currency of the House of Representatives, discussed Federal reserve policies and the call money market. In his address (printed elsewhere) Mr. McFadden sounded a warning of the possibility of Federal supervision of brokers' loans being found necessary in view of the present lack of control of the volume of credit going into the call money market.

Addresses were delivered by Haynes McFadden, publisher of the *Southern Banker*, Atlanta, Georgia, on the transformation of banking; Honorable A. J. Veigel, president of the National Association of Supervisors of State Banks, St. Paul, Minnesota, on interest rates on deposits; Dan V. Stephens, president of the Fremont State Bank, Fremont, Nebraska, on experiences of a regional clearinghouse; and by the Honorable L. A. Andrew, bank commissioner of Iowa, on standard report forms from bank presidents to their directors. (Their addresses will be found elsewhere in the JOURNAL.)

W. F. Augustine, vice-president, National Shawmut Bank, Boston, Massachusetts, was elected president of the Clearinghouse Section for the coming year. H. Y. Lemon, vice-president, Commerce Trust Company, Kansas City, Missouri, was elected vice-president of the Section, and G. H. Mueller, vice-president, Fletcher American National Bank, Indianapolis, Indiana, and Clark G. Mitchell, president, Denver National Bank, Denver, Colorado, were named as members of the executive committee.

Activities Endorsed

A COMMITTEE on resolutions composed of James R. Leavell, Chicago, Illinois, chairman; W. D. Vincent,

(*Continued on page* 430)

Extending Clearinghouse Examination of Banks

By O. HOWARD WOLFE
Cashier, Philadelphia National Bank, Philadelphia

Weakness of Official Examination Systems Called Inevitable. Efforts Being Made to Give Depositors as Careful Bank Management as Humanly Possible. Bank Profits Found to Come from Investments. Safe Payroll Delivery Problem of the Depositor.

THE Clearinghouse Section of this association no longer represents, as it did in its inception, a limited group of clearinghouse organizations as such. Rather it has been our privilege to develop into what might be designated as a well organized department of the American Bankers Association, charged with the responsibility of finding solutions to the everyday practical banking problems that concern the entire association and representing no particular group or interest. Thus the term "clearinghouse" applied to our section, has taken on a new meaning and refers to such activities as are of interest to all banks just as the clearinghouse in any given city represents the combined banking interests of such city without regard to state or national charters.

We have come to the end of a very busy year. Our committees have functioned well under the leadership of chairmen chosen not only for their abilities, but for their enthusiastic interest in the work which was assigned to them.

Our committee on the extension of clearinghouse services, or the organization of new clearinghouse associations, reports that during the past year, nineteen new clearinghouse associations have been organized, of which eleven are of the city type, seven county and one regional clearinghouse association. The committee has placed a regional chairman in charge of the work in certain states grouped together into districts.

> *"THE official examiner is somewhat in the position of a doctor who, instead of quarantining a smallpox patient, would be obliged to keep the presence and the treatment of the disease an official secret. But no matter what we may believe as to the relative efficiency of methods of examination, until the bankers themselves take voluntary action to improve the quality of bank examinations, we will continue to face the threat of branch banking, deposit guarantee, or control by absentee bank examiners."*—O. HOWARD WOLFE.

Standardization Effective

THE credit bureau booklet, prepared by our Committee on Credit Bureaus, which outlines various plans for installing and operating credit bureaus, has been in great demand and has proved very helpful, as is evidenced by correspondence from bankers all over the country, and also by the fact that there are now in operation 128 credit bureaus —fifty of the city type and seventy-eight of the county type. During the past year, six city credit bureaus and twenty-three county credit bureaus were organized.

The Committee on Standardization of Checks and Drafts, which was so ably headed by the late Alex. Dunbar, has done excellent work during the past year, and is able to report that standardization has been accomplished to the extent of over 85 per cent of the volume of checks handled. The economy in the cutting of paper alone, to say nothing of the speeding up of bank work, is sufficient argument for any banker to see to it that his own institution adheres strictly to the standardization program as fully outlined in the pamphlet issued by the United States Department of Commerce, copies of which may be obtained through our New York office. Although this committee is accredited to our section, actually its membership is comprised of representatives of railroad accountants, bank stationers, lithographers, and others interested in the preparation and use of checks in quantities.

In his report last year, Mr. Downing referred to the extension of city clearinghouse examinations to country banks through the organization of regional groups. On March 19, there was held in Kansas City, Missouri, the Mississippi Valley Regional Clearinghouse Conference. Representative bankers, presidents, and secretaries of state associations, banking commissioners and national bank examiners were in attendance representing some fifteen middle western states.

The Time Has Come

THE purpose of this conference is best expressed in a resolution which was enthusiastically endorsed by those present: "Be it Resolved that this Conference declare itself favorable in principle to the proposed system of regional examiner clearinghouses and recommend that the system be adopted and put into use wherever possible."

This conference was presided over by C. A. Chapman, of our executive committee, who through illness unfortunately is not able to be present with us today. The conference was in line with past activities of this section, and is so important in its possible future effect on banking practice that it seems to me it may well be considered one of the outstanding achievements of this section. For twenty years we have been endeavoring to extend and develop clearinghouse examinations. Experience shows that such a system of examination seems to be the best solution yet presented to deal with the weak bank problems. We believe the time has come to extend this plan in principle to organized groups of country bankers. Already two such regional plans are in operation, one in Nebraska, and the other in Minnesota.

It is true there is some difference of opinion whether or not membership in such regional clearinghouses should be voluntary, as is the membership in any clearinghouse association, or compulsory at least with respect to regular examinations. It seems to me, however, that this question of membership in no way alters the soundness of the fundamental principle involved, namely, that a properly organized and conducted system of examination in which the examiner is counselor and advisor as

(*Continued on page* 391)

Call Loans and Federal Reserve Policies

By LOUIS T. McFADDEN
Chairman, Banking and Currency Committee, House of Representatives

Federal Supervision of Brokers Loans Seen As a Possibility. Effort of Reserve System to Control Call Market So Far Unsuccessful. National Confidence in Reserve Policies Must Be Obtained. Importance of International Banking Relationships.

MANY years ago a great need for safe and liquid short term loans in this country led to the establishment of a cash settlement system on the New York Stock Exchange, and the asking of security collateral loans on demand or "call." This call loan market has come through many severe tests in the past, including civil and foreign wars, almost all species of currency heresies, inflations, depressions, periods of great activity and periods of business stagnation. It has been so strengthened by the necessity to survive these almost constant crises in the past that today it is the best organized security collateral loan market in the world.

A good test of a high degree of organization in any market is the extent to which its operations are impersonal. In poorly organized markets the personal factor is very important, while in highly organized markets standardization of practice arises and the personal equation vanishes. The New York call loan market is almost entirely impersonal. When a bank lends money at the money desk on the Exchange floor, it does not know to what Stock Exchange firm the loan will be made, nor does it particularly care. Similarly the Stock Exchange member borrower usually cares very little from just which lender his funds come. Call loans are diversified as to collateral, standardized in units of $100,000 and permit of ready substitution in the collateral and can be handled even for out-of-town lenders with extraordinary facility.

I imagine there is no denying that call loans on listed securities made to Stock Exchange members are the safest and most liquid loans for these lenders that exist in American banking. There seems to be no record of such a loan causing any loss to any lender—a statement which, of course, cannot be made of bankers' bills, United States Liberty Bonds or other superior banking investments.

Easing the Strain

BECAUSE of the ready availability of this class of loan for the investment of surplus funds, bankers, individuals, corporations and other holders of available funds logically turn to this market when rates are made attractive as at present. Such a market sucks into it all available funds in the country. And because of the large accumulation of savings and the turning of national resources into liquid wealth, together with the improved credit facilities, enhanced also by large foreign lendings in this market, the total of brokers' loans are at the highest peak in their history. This, too, at a time when our banks are being called upon to finance the annual crop movements (which movements usually involve a temporary, though considerable, expansion of credit) and when many of the present reserves, which ordinarily are available for this purpose, are being utilized in speculative directions, it would indicate that the present monetary stringency accompanied by present high rates, unless relieved by a release of additional credit by the Federal Reserve System, will continue into the late autumn and even over the turn of the coming year.

This is made more certain by the fact that the apparent efforts of the Federal Reserve management to restrict the speculative position have proved unsuccessful. There is evidence that the Federal Reserve authorities are now releasing funds through the open market transactions to provide additional credit which is found necessary for the strain incident to crop moving. In the Federal Reserve System's attempt to restrict speculative tendencies they are confronted with the realization of their lack of control over a vast amount of credit that is made available to the speculative market when high rates of interest prevail. They readily recognize the burden that rests on the Federal Reserve System in case of a sudden withdrawal from the speculative market of these independent funds through a loss of confidence, a lowering of rates, or the use in commercial or industrial lines.

Federal Supervision

OWING to the important part which the investment of independent money in brokers' loans occupies in connection with our general credit situation and in order to permit the Federal Reserve to retain its control over the total volume of credit, it may become necessary to place the supervision of the future granting of brokers' loans under the Federal Reserve System.

The recent ruling of the New York Clearing House, limiting the accessibility of this market to loans of $100,000 or multiples thereof, emphasizes the necessity of some kind of supervision over this particular market.

A leading economist has recently pointed to the fact that more credit is being used in brokers' loans at the present time than is being extended to our entire agricultural industry, or than is being employed in our whole foreign trade, or than is being used in the automobile industry, and that brokers' loans are greater today than were all the savings bank deposits in the United States at any time prior to 1917 and they are more than half as great as are the aggregate savings bank deposits of the American people at the present time.

Let It Boil Over

THE Federal Reserve System is charged with a grave responsibility in dealing with this situation because it would be easy for it to produce a business slump without intending to do so. In this connection, it is interesting to note the views of a leading British authority on the subject of finance, who is a student and close observer of our Federal Reserve operations:

"I am now more concerned lest the Federal Reserve authorities should accidentally bring about a general business depression by attempting to take action toward the stock markets which, however well meant, is not really compatible with the system's duty toward business. I think the Federal Reserve System may have been quite right to try to frighten the speculators a few months ago, but this having failed, I think they would be much better advised to leave Wall Street alone and let it boil over of itself, rather than do things which, if continued, will certainly put at risk the general prosperity of the country."

Apparently the present situation was precipitated by the change of Federal

Reserve policy last year to assist England and other central banking countries in their attempt to stabilize their currencies and return to a gold basis. Now that this assistance has been rendered at the cost of America's being thrown into a speculative frenzy, the Federal Reserve authorities are attempting to get back to a normal basis. In considering this dilemma, another noted English authority expresses the opinion that it is very apparent that there is no inflation in commercial credits and commodities and, therefore, no need to restrict commercial credits, but there is evidence of inflation in the stock market and in real estate operations, and he suggests that if the Federal Reserve credit is being used as is indicated, that it is a serious risk. And all this might have been obviated six months ago if the Federal Reserve management had been more drastic in dealing with the well defined speculative tendency then indicated.

Must Penalize Trade

THIS same responsible authority further says that Federal Reserve management cannot ignore speculation in real estate or the stock market when it is definitely known that Federal Reserve credit is being used, particularly when these loans are secured by collateral based upon very high or inflated values, because in the event of collapse in either case the banking system is bound to be weakened which might precipitate serious banking as well as industrial trouble.

He points out, besides, that just as real estate and stock market booms in the past have encouraged spending, so the collapse of these booms will necessarily discourage spending and thus trade. He further points out that it is utterly impossible for the Federal Reserve management to concentrate attack upon any particular form of inflation, but if it desires to check speculation either in real estate or the stock market, the system must penalize general trade to some extent and that it is better to face these facts in the early stages of speculation, when neither checks nor results of them need be so severe as when action is delayed, and in the present predicament it will be a mistake if the Federal Reserve management allow a reduction in money rates before the present volume of brokers' loans is materially reduced. Also, member banks must not be continuous borrowers else they may regard such borrowing as the rule rather than the exception, and such a policy would seriously weaken the Federal Reserve management of the credit situation.

The same authority considers it unwise for the Federal Reserve management to put into operation the machinery designed to reduce volume of credit unless the management really intends to reduce it. The only result will be embarrassment and decreased efficiency in the management. This authority approves of the policy of the Federal Reserve System during the last six months and feels that it has been in the right direction but not sufficiently drastic.

Into Speculative Loans

RESERVE credit is made more accessible in times like the present by the use of short-time government securities as collateral by member banks and by the Federal Reserve banks themselves in open market operations. The availability of government securities for the release of Federal Reserve credit is partly responsible for the non-development of trade acceptances and bankers' acceptances in this country. Federal Reserve authorities, recognizing the powerful influence to buy and sell in the open market, so long as the law permits government securities, because of their ready availability, to be purchased and sold in the open market, have insisted upon a continuance of this war-time authority, and no doubt such use has influenced the Treasury in continuing to refinance approximately $2,000,000,000 worth of the government temporary debt (now represented by short time certificates of indebtedness) in this form of security rather than the funding of this short time debt over a long time.

I have directed attention to the fact that the Federal Reserve System permits the use of government securities as a basis for a release of Federal Reserve credit to a greater extent than is perhaps judicious. Careful consideration should be given to this subject, particularly as it is through this source that credit can be released in a speculative market, and when so released, even though for commercial, industrial, or marketing purposes, it is quite apt to go directly into the speculative loans which will result in an inflation of what is perhaps an already over-inflated, high-priced stock market.

Tends to Inflation

THE speculative minds in this country, realizing how dependent their business is upon ample credit facilities and easy access thereto, oppose, of course, any restriction being placed on the release of credit through the use of government securities. At the same time, they are not too adverse to this and have already suggested a method whereby additional credits can be provided through the Federal Reserve System by making eligible for rediscount brokers' loans in the form of what is known in the English market as Lombard loans.

To my mind, to make eligible this class of investment securities for direct discount and thus cause an additional release of Federal Reserve credit, tends to inflation and is contrary to the principles underlying the organization of the Federal Reserve System. If, however, our contemplated use of the Federal Reserve facilities to accommodate commerce, industry and agriculture in this country has changed, and we have come into a new era where industry, commerce and agriculture are being financed differently than intended in the original Act, the Act should be changed to meet the new conditions.

The development of mass production, centralization of industrial production and distribution, coupled with the centralization of individual banking endeavor, must be recognized, and just as truly as we have developed from the beginning of banking, we are going to continue to expand because banking must keep pace with the needs and requirements of advancement in commerce and industry and improved marketing conditions in agriculture.

Trustees of the People

OUR central banking system as now operated by the Federal Reserve System, is necessary in order that we may maintain a gold standard and finance our domestic and international trade as well as our own governmental and financial transactions. If this system is to function in the discharge of its full duty, it must occupy a commanding position over the credit situation in the United States and in order to do this it must be placed in a position where it can control all the elements that enter into this credit situation; and if revision of the law is necessary to accomplish this, the necessary amendments should be made in the law so that the administration of the system will not be handicapped in its service to the 120,000,000 people for whom it was primarily organized to serve. And the management of this system should never forget that they are trustees of the people of this country whose destinies are to a great extent in their hands.

Much criticism has been expressed as to the policy pursued during the past year and a half by the Federal Reserve management. Much of this criticism has not been well founded but has been due to a lack of correct information as to the purposes to be served by the changed policy of the system.

Wise and Proper

IN the light of present information as to why discount rates were lowered to 3½ per cent a year ago and credit provided for through open market operations, which prepared the way for the release for export of some $500,000,000 worth of gold to aid in the rehabilitation of Europe, looking toward stabilization of currencies and a return to a gold basis of their major countries, this action I believe is recognized as of benefit not only to the countries served, but to the United States. The consequences resulting from the changed policy of the system have been noticeable in this country in greater activities in the stock market and by a somewhat improved condition in commodity prices and have not resulted in business depression, but on the other hand, it is fair to assume, have encouraged the improvement in business conditions which are everywhere manifested at the present time. The desired results abroad have been accomplished. Our own domestic situation, so far as industry, commerce and agriculture are concerned, remains satisfactory, and

the disturbed credit situation, occasioned by this change of policy, seems to be at the present time well in hand. It would, therefore, seem that the decision made by the Federal Reserve authorities to render this assistance was wise and proper and that any harm that may have been wrought or may yet be in store will be greatly overbalanced by the good that was accomplished by this move.

In this new association, the importance and responsibilities of the operation of the Federal Reserve System have been increased in its relationship with the central banks of the leading countries of the world, and as the association has become known through its accomplishments, attention has been directed to the subject of central banking because of the fact in this consortium the Federal Reserve Bank of New York has been acting for the Federal Reserve System and virtually functioning as a central bank and the other central banks look upon their contact with this country through the Federal Reserve Bank of New York as "The Central Bank of the United States." Therefore, because of our close association now with central banking it is well for us to familiarize ourselves with the functions of central banking. Students of banking economics are of the opinion that such cooperation is necessary and helpful and should be continued, but with certain limitations.

The Gold Standard

IN this connection, it is interesting to note the views of Professor Gustav Cassel of the University of Stockholm, who recently appeared before the Banking and Currency Committee of the House of Representatives in Washington when he said:

"You have a Federal Reserve System and the most prominent function of the whole system is to keep up the gold standard. You ask the Federal Reserve System to do that and you find it quite natural they should be able to exercise that function and nobody doubts that the Federal Reserve System is able to keep up the gold standard in this country.

"This is a function of the central banks, because inevitably the central banks have an influence on the value of gold. I want to add that this is the only point where the central banks necessarily have an influence on prices. Therefore, you should abstain from adding any other duties to the central bank. It is not the function of the central bank to influence the relative prices of different commodities; it is not the function of the central bank to increase wages or stabilize trade or encourage industry or protect the farming interest or do anything like that; it is not even the business of the central bank to influence the rate of interest on capital. Therefore, nothing of that sort should be put into the program of the Federal Reserve System."

In the discharge of the responsibilities, acting in its capacity as the responsible head of finance in America, it is well to consider whether or not the Federal Reserve System has or has not been granted all the necessary authority and power to handle the conditions with which the system is now confronted, and in this connection it is well to consider the powers that are exercised by other central banks of the world.

The practice of central banking is a matter of comparatively recent date. England is the home of central banking and the foundations of the present system were laid in the year, 1844.

Besides the management and regulation of the currency system, many other important functions are performed by the Bank of England. These powers have been the outcome of a gradual and almost unnoticeable evolution.

While other countries developed central banking systems somewhat differing from the English plan, it was not until twenty years ago that the subject really attracted world-wide attention, which was considerably accelerated by the severe crisis in this country during the year, 1907.

Foreign Contacts

THE next crisis directing attention to central banking was the complete collapse during the World War of many of the currency and banking systems of the countries involved. A careful examination of the causes of the failures of these central banks under the stress of war conditions has revealed that political pressure was put upon the central banks to abandon the fundamental principles of sound central banking and to subordinate financial stability to political expediency.

The next incident to attract the public to central banking was the meeting of the Financial Commission of the International Economic Conference in Genoa in 1922. The reports of this conference really established the basis for the formation of central banks in several of the European countries.

While the Federal Reserve System had long prior to this time established its contact with central banks, particularly with the Bank of England, the importance of these unofficial conferences and contacts was daily assuming larger proportions and influences, and because of this the management of our system became aware of the advantages of these associations to the industrial, agricultural and financial interests of this country, and at the same time with international movements.

The World's Banker

APPARENTLY New York is now the money center of the world. It is of primary importance that the assets of the New York Federal Reserve Bank, and in fact the assets of the entire Federal Reserve System, which is cooperating in this "decentralized system" of central banking, be of the most liquid character possible. It is of real importance that the bank should have the fullest power possible in case it needs to increase or curtail the total volume of credit in order to protect the central reserves and maintain the gold standard, and because of this, its assets should at all times consist of securities of short maturity and of such a character as to be readily available.

Acting as the world's banker brings an additional responsibility, as it is incumbent upon such an institution to meet sudden withdrawals of credit and gold in international transactions.

The Federal Reserve System is the most potential influence in the world today, and because of this fact it is natural that attention should be focused on its management and operation. The law provides that annually the Federal Reserve Board shall make a report to Congress. Each year this has been done. The annual report, however, outside of an analysis of figures, showing size, growth, or decrease of its operation, gives very little explanation of the operations carried on by the system, except for brief explanations of possible change of policy during the year, with some references to economic conditions.

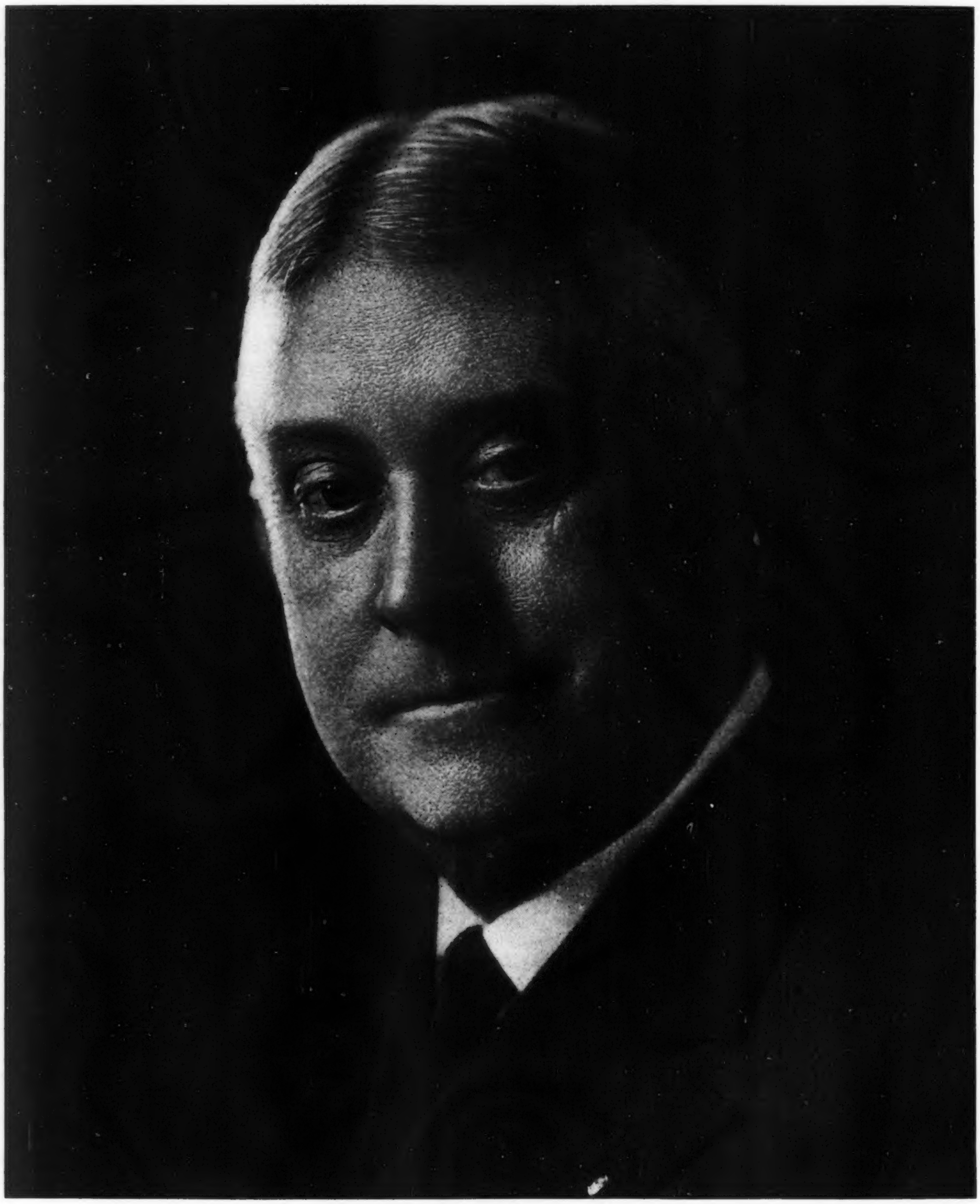
In the Dark

DURING the past two years the Banking and Currency Committee of the House of Representatives has been holding hearings on a bill proposing to direct the Federal Reserve Board on the question of stabilization, and by the appearance at these hearings of members of the Federal Reserve Board, officers of the various Federal Reserve Banks, leading economists and students of financial and Federal Reserve operations, not the least of whom was the Governor of the Federal Reserve Bank of New York, a valuable record of a part of Federal Reserve operations from the date of its organization has been made.

Outside of the consideration that was given to the subject of the hearings, much valuable information as to the operations of the Federal Reserve System has been recorded. Many critics of the system feel that the public is kept altogether too much in the dark as to present operations of its banking system. They feel that they should know something as to the time, the whys and wherefores of a change in policy on the theory that uncertainty causes speculation, and supported further by the thought that the banking system should be the servant rather than the master of commerce, industry and agriculture, they point to a growing tendency of secrecy and apparent domination by its management.

In this connection, we must recognize the powers that are vested in the management of the system. The three great powers, outside of the influence of gold, are the discount rate, open market operations and publicity. The delicacy of the management of any central financial institution, because of the importance of the exercise of the necessary functions within its control to proper management of the system, in the discharge of its full responsibilities, in the pro-

(Continued on page 373)



ROME C. STEPHENSON

Second Vice-President American Bankers Association and Vice-President St. Joseph County Savings Bank, South Bend, Ind.

Profitable Banking

By HAYNES MCFADDEN
Publisher, The Southern Banker, Atlanta, Georgia

Principles Creating New Sources of Bank Income Open to All. Simple Set of Rules Meet Acid Test in Georgia. In Grasp of Little as Well as Big Banks. Idea Taking Hold On Every Side. Cost of Federal Reserve System to Country Banks Found High.

THE last fifteen years have created in the realm of banking a new heaven, a new earth and a new hell. The heights first mentioned have been attained by banks which read the signs of the times from afar, were governed accordingly and devised new sources of income in addition to interest and discount, which alone remain of all the ancient sources of bank revenues. On the new earthly plane a large number of banks are struggling with some show of success to meet declining earnings with drastic economies of operation. This game is hardly worth the candle. The third state is the hopeless plight of banks that are floundering blindly in the limbo of impoverished earnings and are bound to land sooner or later in the bottomless pit.

Often only a hair's breadth divides success from failure. From the outer darkness of banks that exercise none of the expedients that have been devised for their salvation, the journey through the twilight zone of breaking even by virtue of drastic economies, one will find a surprisingly short distance into the broad daylight of abundant success made possible by the exercise of sound principles formulated in an exceedingly simple set of rules that fully control the situation.

High Profits

DO not get the idea from the tracing I shall make of bank earnings for the past decade or so that my faith has weakened regarding the future success and prosperity of the banking profession. On the other hand, it is my firm belief and deliberate conclusion that banking shall know the fullness of its day in the future to a degree that it has never experienced in the past.

Forty per cent in number of all business establishments in the country last year either made no money or operated at a loss. There is unquestioned authority for that assertion. Yet the year was one of high profit levels for business as a whole.

There are times when I am almost persuaded that 40 per cent in number of all our banks either make no money or operate at a loss, leaving the other 60 per cent to uphold the reputation of the profession as a money-making game. If 100 per cent of our banks were taking advantage of the opportunities which the present day affords, not the first heaven alone, for the first to seventh heavens, inclusive, would be in our grasp.

Into Banking Caverns

YOU have read that in number 10 per cent of all the banks in the United States have gone out of business in the past six or seven years.

This era of profitless prosperity did not overtake us in a night. It closed in upon us gradually over a period of many years. The good old days departed so silently that they left many of us unaware of the transformation.

Come with me for a historical excursion into the banking caverns of the recent past. The wayside is literally strewn with minus signs in the income account and with plus signs in the expense account. Let us follow the minus signs and the plus signs over the back track of fifteen years.

Banks a Shining Mark

IN 1913 we all who were so honored paid our first graduated Federal Income Tax, and it has gradually graduated upward until it exceeds the ancient and most popular interest rate of 1 per cent a month. In the meantime, banks have become a shining mark for every new tax that is enacted and for every increase that is proposed—local or national. Put this plus sign on the expense account.

Before we got used to this, the Federal Reserve System was established. In paying up their quota of its capital stock, member banks placed a minus sign on their income accounts, as far as this sum was concerned, because its production of income was at once and forever limited to 6 per cent per annum.

Then the reserves were called in and paid in by member banks, who saw the rate on reserve deposits fade away from 3 per cent to nothing at all. Again the minus brand was burned into the income account.

A Flock of Plus Signs

PAR clearance followed fast. Member banks and non-member banks suffered alike the loss of revenue. This minus sign burned deepest of all into the earnings of country banks.

It is not my argument nor intention to imply that the Federal Reserve System is not worth all that it has cost and a great deal more. It is the greatest contribution of the century to the strength and security of the nation and of the banks of the nation. All protection costs money; the greater the protection the greater the cost. My only point is that the inauguration of the Federal Reserve System was a substantial factor in abolishing previously productive sources of revenue to banks.

The banks were able to stand all of this. There was more yet to come. With the outbreak of war, a flock of plus signs were tagged upon the expense account. Bank help jumped 100 per cent in cost. Rent, stationery, supplies, equipment, everything that a bank bought or hired soared skyward. The rate of interest received remained at its pre-war level, or slightly lower on the average, due to the enormous volume of Liberty bond loans carried at the bond rate or at a spread of 1 per cent or less.

"Tasted Blood"

IN natural sequence attendant upon the inflation of bank resources under war conditions there ensued a period of competition for liquid and desirable loans. This competition led to a shading of interest rates on commercial loans that hitherto had not sought or received preferential treatment.

Millions of depositors having "tasted blood," so to speak, and having felt the thrill of collecting interest on their savings in the form of Liberty bonds, were not content to keep free balances in our banks. It was at about this time that bankers generally began to abandon the thought that to allow interest on accounts subject to check was bad banking policy. More and more interest was paid on average daily balances, until today we find one-third of the gross income of all banks is absorbed by "interest paid." In seven years bank incomes have increased $239,000,000 and interest paid on deposits has increased $215,000,000. Only 10 per cent of the increased income goes to net earnings. You cannot pay expenses plus dividends out of this residue. In 1919, banks earned 10.6 per cent on invested capital; in 1927, they earned 8.8 per cent.

In addition to the depositor's demand for interest on daily balances, the best borrowers have changed their habits in a way that seriously curtails the

demand for prime commercial loans. Countless hundreds of prosperous industrial and mercantile establishments have, since 1920, either floated bonds or issued preferred stock, amounting roughly to $300,000,000, that superseded and supplanted demands for an equal amount of seasonal financing by the banks. Such operators prefer to regard a part of their capital as a fixed charge rather than to borrow from the banks for their seasonal needs or to share ownership with outsiders, who, as common stockholders, would take a full cut out of the profits. From the volume of such financing it would appear to be both profitable and successful, especially in view of the fact that any unemployed excess can always be left at interest with some bank, yielding 3 per cent to 4 per cent and affording a substantial offset against the item of interest calculated as a fixed charge. This process has at one and the same time applied the minus sign to earnings and the plus sign to expenses.

Take the item of competition in another aspect. In olden days in a one-bank town the bank had no competition. In a two-bank town, each bank had one competitor, and in a three-bank town, each bank had two competitors, and so on. Good roads and the possession of at least one automobile to every family in the land has changed that situation, too. Now every bank has at least a dozen competitors in the area easily accessible by automobile. Never permit yourself to think that this class of competition is imaginary. There was an actual case in Georgia of a man driving sixteen miles to get a check cashed because the bank in his home town charged exchange on out-of-town checks cashed for non-depositors. This economist was held up and robbed on his way home and tried to sue his home bank as an accomplice. This is an extreme case, but extreme cases afford the best illustrations.

Mazes of the Law

THE first effects of this widening competition and narrowing margin of profits appeared in our cities and was evidenced by the struggle for volume, which is another striking characteristic of banking during the past decade. The struggle for volume stimulated branch banking in many cities and in several states. The growth of branch banking gained great momentum before it was scotched by the McFadden act. It was the answer of the age to the lust for volume, for only volume can overcome narrow margins of profit.

More lately the prohibition of branch banking has given rise to widespread activities on the part of bank holding companies, which control volume and insure profits without necessarily entailing the responsibilities of management incidental to branch banking. This clever device to control business and assure volume, for a time seemed calculated to outwit the forces opposed to branch banking. New Jersey has taken the lead in curbing holding companies. At the New Jersey Bankers Convention, it was proposed to make bank holding companies subject to bank supervision and to make it unlawful for any holding company to own more than 10 per cent of the capital of any bank.

The lust for volume seems constantly to be restrained by the mazes of the law and it is at best a doubtful solution to the problems of profitless prosperity among banks. Banks must have new sources of income founded on sound banking principles. These sources must be available to country banks as well as city banks. They must be sources that any bank can tap.

Charge the Public

CITY banks for years have met the income problem in ways that are beyond the reach of country banks. City banks can have trust departments, bond departments, real estate departments, insurance departments, travel departments and what not. They become department stores of finance. Each department can be made to show its own profit and in the aggregate the earnings are sufficient for expenses plus dividends consistent with the capital invested and management employed.

Even in city banks the earnings of the commercial banking departments are not entirely satisfactory unless the principles that create new sources of income are employed. These principles are in the grasp of country banks as well as city banks, of little banks as well as big banks, of weak banks as well as strong banks. These principles are sound. These principles are the keynote of all I have to say.

Broadly stated they are to charge the public for every service of value to the public that is performed by banks. These principles are fathered by mutual faith, trust and confidence between neighbor banks and are mothered by concert of action.

Make Better Banks

UNDER the spur of stern necessity in Georgia we have put these principles to the acid test. They have been weighed in the balance and have not been found wanting. They improve earnings, they make stronger and better banks and they produce no ill effects from the loss of good will or from public distemper.

These principles as advocated by the Georgia Bankers Association include:

The service charge on unprofitable accounts (usually 50 cents a month, minimum balance $50).

Service charge on checks drawn against insufficient funds (usually 25 cents per item).

Service charge on notes allowed to run over due (usually 25 cents a day plus accrued interest).

Service charge for overprinting checks (usually actual amount of the printer's bill).

Service charge on small loans figuring less than $1 discount (the difference between $1 and the actual amount of interest is calculated as a service charge. This avoids liability for usury).

Exchange on out-of-town checks cashed by non-customers.

Fee for cashier's checks.

Limitation of interest on time and savings deposits.

To require statements of assets and liabilities from all borrowers in excess of $500.

The establishment of credit bureaus for the interchange of information between banks to forestall duplicate and multiple loans.

Many banks also charge for making out income tax returns, automobile license applications, wills, deeds, mortgages, escrows and other forms of service that represent expense to the bank and possess value to the public.

Will Hold Water

THESE principles have been adopted and rules have been put in effect in 112 of the 149 counties in Georgia which have banks. The last big push is now under way to bring the remaining thirty-seven counties in Georgia into county clearinghouses or county bankers' associations which will give the plan solid statewide significance.

Not alone in Georgia but in every state in the Union this idea is taking hold. It is estimated that the total number of banks enforcing the same or similar rules is around 11,000. The experience of these 11,000 banks almost without exception has been that none has lost any business that it was not better off without. Most generally the effect on depositors is to inspire them to improve their balances and avoid the service charge altogether. The rules make better depositors and better citizens, as well as better banks, better for themselves and better for the communities where they do business. There are no objections to the plan that will hold water. There are a thousand reasons for banks to adopt these methods for improving their earnings; there is not one reason against it. Back of the countless reasons demanding new sources of income stands the first law of nature—self-preservation.

Sorry Accounts

FROM the practical organization point of view do not let what I have said mislead anyone into forming the opinion that ten or twelve rules are necessary for the establishment of a county clearing house. Very few local organizations adopt the full set of rules. If ten or twelve banks are found in a given area whose minds meet on the enforcement of four to six of the rules as an initial step a starting point has been gained. With this starting point it is our experience that mutual faith, trust and confidence is engendered that leads rapidly to the adoption of additional rules until ultimately the entire list is in effect.

In fixing areas to be included in a given county clearing house we have not restricted the organization to one county alone. As a matter of fact the most typical organization in Georgia

(*Continued on page* 373)

Interest Rates on Deposits

By A. J. VEIGEL
Minnesota State Commissioner of Banks

Safe Banks Rather Than High Rates Chief Concern of Public. Lower Interest Charges Considered Essential Along With the Installation of Fees for All Services Rendered. Action of State Authorities in Requiring Reduced Rates Is Commended.

THE interest rate a bank pays for the use of money bears a direct relationship to the interest rates received by it on bonds and bills receivable. As such rates are continually changing, it follows that the rate paid on time deposits should also be changed to meet the existing conditions of the money market. Banks now cannot afford to pay as much as they did during and immediately after the war.

The public is more interested in having safe banks than they are in free services or high interest rates. In the long run, a bank must have earnings above expenses to be safe. Most banks have now decided that they are not charitable institutions. There is no good reason why banks should not charge for all services rendered, the same as every other business is doing.

The income of banks has been reduced because they now get much less in exchange, practically no commissions on mortgage loans, the interest received on bills receivable and bonds is less, and in many cases the volume is less. On the other hand, their expenses for salaries, taxes, supplies, etc., are more.

Can Save Money

LITTLE can be done in the smaller banks to reduce expenses, because in most cases the salaries are now inadequate. To balance their budget and show a profit, it is, therefore, necessary to increase the earnings by reducing the rate of interest paid on deposits.

Some additional earnings can be obtained by service charges of all kinds and banks should not hesitate to collect them, but the place where banks can save more money than everything else put together, is to reduce rates paid on time deposits. A reduction of 1 per cent in Minnesota would make about $3,000,000. That 1 per cent saving would place on a paying basis many banks which have not made any money in the last few years. It would undoubtedly save some banks from closing in the future.

Why Hesitate?

KEEPING in mind the undisputed fact that the public is primarily interested in safe banks and everything else is secondary, also the fact that banks must in the long run make money in order to be safe, it is then squarely up to the banks to do whatever is necessary to show a profit.

About the only place left to enable many banks to make the necessary profits is to reduce interest rates on time deposits. Then why hesitate?

We realize that many would like to reduce the rates, if all other bankers would do likewise. It is perhaps too much to expect of human nature that all bankers should agree. We all know that if certain key banks in any given territory would reduce, there would be no trouble, but from a practical standpoint, that seems to be impossible. It is, therefore, necessary in many cases for banks to reduce without waiting for all banks to do likewise.

Its Strength

THE experience in our State has been that banks which reduced first are usually the more conservative banks. A thinking public knows that such banks are safer because of such reductions and in those cases they have not lost deposits and in many cases they have gained deposits.

I am a strong believer in our independent banking system, in spite of all of its faults. The United States has a larger so-called middle class than any other country in the world. Therein lies its strength. I firmly believe that the independent banking system has been the prime factor in giving us this large independent class of citizens who are fairly well off.

We should, therefore, do everything possible to preserve our independent banks, and to do so, it is necessary that bankers themselves take whatever action is necessary to prevent in the future the numerous bank failures which have occurred in the recent past.

Arbitrary Rates Unwise

IN my opinion, cooperation among independent bankers is now the most important thing to preserve our present system. If the majority of the bankers in any given group or territory decide it is necessary to have credit bureaus, regional clearinghouses, make service charges, reduce interest rates, etc., the minority should join whole-heartedly with the majority. By doing so, they not only improve their own condition, but materially help the general situation. Cooperation should be the slogan of independent bankers at the present time. This applies especially to the interest rates on time deposits.

It has been abundantly demonstrated that all banks should have at least 20 per cent of their assets in liquid form, or a so-called secondary reserve for emergencies. If this amount is invested in the best bonds and commercial paper, the interest rate is low. Many banks which pay a high rate on time deposits are actually losing money on such investments. This condition should not exist.

I doubt if it is advisable or desirable for the different banking departments or the comptroller to arbitrarily fix the interest rates on time deposits, as conditions vary greatly in different parts of the country. The independent bankers themselves should be big enough to handle this matter in the interest of the public and of the banks.

Slow Suicide

WHEN, however, a condition exists where bankers do not do this, and when it can be clearly shown that some banks are slowly committing suicide by paying more interest than they can afford to pay and it becomes a question as to the safety of the bank, then it seems to me that it is the duty of the banking departments, in the interest of the depositors, to step in and compel such men to run their banks in accordance with sound banking principles.

Such a condition existed in Minnesota. In May of this year, we found that about 40 banks were still paying more than 4 per cent on time deposits, some of them as high as 6 per cent. Most of these were banks which could least afford to pay the high rate and many of them were in red in earnings.

The Minnesota laws give the Commissioner of Banks authority to stop any practices in banks, which are against "sound banking principles." That is the only law we had by which we could reach the interest rates. Acting under that law, we issued a circular letter to all State banks urging them to reduce the interest rates so that their banks would be on a paying basis, and forbidding them to pay more than 4 per cent, holding that to do so under present conditions would be against sound banking principles.

Comptroller Cooperates

PRACTICALLY all bankers welcomed this order, as they knew it would improve the general situation. It gave the

(*Continued on page* 413)

Nebraska's Experiment

By DAN V. STEPHENS
President, First Nebraska Regional Clearinghouse Association, Fremont, Nebraska

Results of an Experiment in Clearinghouse Bank Examination. Nebraska System Shows Private Examiner has Distinct Advantages Over Public Official in Maintaining Sound Conditions. Strengthening the Hand of Weak Banks by Proper Supervision.

THE First Nebraska Regional Clearinghouse Association was organized at Fremont in September, 1927, for the purpose of reducing losses and improving general banking practices in the district. The burdens of the Nebraska bankers have been unusually great during the last ten years as a result of the operation of the State Guarantee of Deposit Law which compels the solvent banks to pay the losses of those that fail. Naturally this created in the minds of the bankers in the state a desire to improve conditions existing among the banks in order that their losses might thereby be reduced to a minimum.

An experimental district was set up for the purpose of demonstrating to the State Banking Department, the feasibility of districting the entire state into as many districts as the state has examiners with the view of permanently locating an examiner in each district, making him responsible for a specific number of banks.

The district now has been in operation one year and considerable progress has been made, and a great deal of public sentiment has been created in favor of the plan. The plan is based largely upon the successful experiments of City Clearinghouse Associations, where private examiners have been employed. The reason for the success of the city clearinghouse with its private examiner as compared with the work of public examiners is due wholly, in my judgment, to the fact that the private examiner is given complete charge of a specific number of banks and is made responsible for their successful operation.

A Brand New Idea

WHEN contrasted with the public examiner who is not made responsible for a specific number of banks and who is not located in a specified territory, and who does not follow up his own examinations and recommendations to see that they are adequately carried out, the advantages are distinctly shown to be in favor of the private examiner. Therefore, the aim of the officers of the Regional Clearinghouse Association of Nebraska was to use the public examiner, both state and national, in the same manner that private examiners are used in the City Clearinghouse Associations. This is a brand new idea. By adapting this practice to the Regional Clearinghouse Association, it was hoped that the same results would be obtained in the supervision and examination of banks that the private examiner obtains for the City Clearinghouse Associations.

Stepping-Stones to Solvency

GIVING a first hand account of the success of a self-regulated banking system Mr. Stephens comes to the conclusion that the first essential step to guarantee the solvency of state banking institutions is to take bank departments out of politics by extending the term of office to a period of six years. He contends that the solvent bankers of the country are in no way to blame for the great losses the country has sustained through failed banks.

During the year our Association had been in operation, the state examiner assigned to our district, Mr. Lyman Sorensen, has had under his supervision sixty state banks. There are nine national banks in the district that are of course under the supervision and examination of the Comptroller of Currency and we have had no cooperation practically, excepting in words from the Chief Examiner for the National Banks of our district. However, there is no reason why the examiner for national banks should not cooperate with our state examiners by making his headquarters, when he is in the district at our office, which is provided for that purpose by the Clearinghouse Association.

Strengthened the Hand

DURING the year that our present state examiner has operated for the Clearinghouse Association, he has accomplished more in the cause of sound banking, than has ever been accomplished before by a public examiner. He has strengthened the hand of weak banks in at least a dozen instances by enabling them to secure the payment of an assessment made for the purpose of cleaning their banks, and he has done this with such conscientious care and high purpose, that the bankers themselves heartily endorse his course.

Those who have been helped, realize that they were wrong in permitting the conditions to exist that the examiner found and that they were deceived in believing that they couldn't cure it. The examiner has shown them how to get the money necessary to put their banks in good condition. Not only have bankers of the district profited through the efficiency of the operations of the examiner, but they have developed very profitable banking practices at their "Round Table Meetings." At these meetings charts and graphs are submitted by the officers of the Association, showing the losses that banks are sustaining for the lack of proper understanding of their condition.

Exhaustive studies have been made of the question of service charges and conditions that have grown up justifying these charges and the facts have been laid before the bankers of the district at these meetings with gratifying results. Bankers have been shown sources of revenue, which if tapped, would greatly strengthen their profit accounts. Exhaustive studies also have been made and presented at the round table meetings, showing the losses that some banks were taking through a careless method of figuring interest payments on time and savings accounts.

Many Found Leaks

ONE bank saved $2,000 by slightly changing its methods of figuring interest as the result of the discussion of the subject and we no doubt have many who have found leakages of this kind and have corrected them as a result of these illustrations. A plan is now under way for the establishment of permanent committees dealing with these subjects with a view of publishing periodicaly in bulletin form their findings for the benefit of the entire membership.

The question of secondary reserves and of what these reserves could consist

(Continued on page 389)

Standard Report Forms for Bank Presidents

By L. A. ANDREW
Iowa State Bank Commissioner

First Model Form for Report of Executive Officers Prepared. Designed Essentially for Use of Small Country Bank Boards. Uniformity Sought in Order to Simplify Methods of Keeping Directors in Close Touch With All Operations of Their Bank.

IT has been felt for some time by all interested in better banking that a standard form of a report from the executive officers of a bank to the directors would be a very valuable help. This matter was brought to the attention of the American Bankers Association by its Economic Policy Commission at the Houston convention. The commission requested that the Clearinghouse Section, with the cooperation of the State Bank Division, prepare and recommend a suitable form of report.

The Clearinghouse Section appointed E. R. Rooney, Vice-President of the First National Bank, Boston, as chairman of such a committee, and a similar committee has been working from the State Bank Division. At the request of the American Bankers Association, Grant McFerson, President of the National Association of Supervisors of State Banks, appointed a committee to cooperate with the American Bankers Association committee. A meeting was held at the convention of bank supervisors held in New York on July 26. There was a great deal of discussion in regard to the subject before the committee, and the chairman was asked to prepare a report to be sent the members for their approval. It was decided that this report should cover the requirements especially of country banks.

Directors in all banks should have the most complete knowlege of a bank's transactions, the value of its note case and other investments. Full particulars of all the important changes and new transactions should be put before the directors of a bank at least once a month. There is no bank so small but it should have a meeting of its board of directors at least every thirty days. Of course, the larger banks should meet every two weeks or every week. The report of the executive officers to the directors should be made at a meeting and not sent by mail. This is very important and should be insisted upon.

Hard to Get Reports

IT was the desire of the committee to work out a program for these directors' meetings and to suggest a form of report to be made, bearing in mind that whatever is submitted must be solely along the line of a suggestion, to be worked out in the different banks as their various requirements suggest. The members of the committee, being very familiar with the small country bank personnel, knew that it would be impossible to expect the limited force to make out any extensive report. Under present conditions they have a hard time meeting expenses and have as little help as possible to do the work. As bank commissioners, we even find it hard to get the required reports in on time from a large number of our smaller banks.

A large number of questionnaires were sent out to banks and supervising authorities, asking for suggestions, and considerable time and effort was expended in trying to gather together these results in report form, which would be brief, complete, and in such shape that the small bank clerk and officer could work it out.

To Show Changes

IT was felt that the report should contain full and complete particulars of the important transactions of the bank since the last meeting; that there should be a comparative statement of the condition of the bank submitted in detail, both as to resources and liabilities, said comparison being with conditions as of a month ago and a year ago. This was done to show any immediate changes and also the change from a year ago to give the directors a knowledge of the general trend of the bank's affairs. The report on resources is divided under the following heads:

Cash and due from banks
Unpledged U. S. securities
Unpledged other bonds (marketable)
Demand com'l and call paper (available)
1st mortgage loans
Other secured loans
Other loans, discounts and bonds
Loans to officers, directors, and allied interests
Pledged loans and discounts
Pledged bonds
Overdrafts (itemized attached)
Banking house, furniture and fixtures
Other real estate
Other assets

The report on liabilities is divided under the following heads:

Commercial deposits
Public fund deposits
Other demand deposits
Savings deposits
Time c/ds
Bills payable and rediscounts
Capital stock
Surplus fund
Undivided profits
Reserve account
Other liabilities

Then comes the report on the amount of Total Reserve on Hand and the Reserve Required by Law, followed by a short statement of Earnings and Expenses, with a comparison with those of a year ago. Next the report shows the new loans granted and bonds purchased; also the important loans paid and the bonds sold. There is an extra space for the changes in large and important loans. Applications for new loans with the amount and the security offered come next. The officers then call the attention of the board to the loans, including the excess and large lines, past due, doubtful, slow paper, frozen loans, etc. The next item is a discussion of the Potential Other Real Estate, and plans for the sale of real estate already acquired. Next is listed important new and closed accounts, both commercial and savings. Included in the report is a space for Miscellaneous Items and a suggested program of business, including besides the above, loans which are under contemplation, the reading of communications from the supervising authorities, and a general discussion of the bank's affairs, how to increase business, etc.

Has General Approval

THIS form of report has been carefully considered and adopted by Mr. Rooney's committee, by the committee from the State Bank Division, and by the committee from the Association of Supervisors of State Banks. The report also has the approval of the national banking authorities.

This is probably the first time that a model form for a report of the executive officers of a country bank to their board of directors has been prepared. Good banking requires the close cooperation of the directors of a bank with the ac-

(*Continued on page* 414)

A Smile in Trust

A SMILE is a small thing, often considered to be of no particular value, yet wonders have been performed with a smile.

It has been known to open barred doors. It has been the foundation of many fortunes. Even today and now as you read, men and women are building their future success and happiness with smiles.

What has a policeman to smile over, especially if he is a traffic policeman whose day is filled with the material out of which to make a mountain of petty irritations?

Not much, some may say, yet there was a traffic officer on a busy corner in Kansas City whose manner of performing his duty set at naught a line from an old opera, "When constabulary duty's to be done, the policeman's lot is not a happy one," for he performed his work with kindness and good will and corrected infractions of the law with a smile, and they called him "Happy" Smith.

He was a personification and an exemplar of the truth, "laugh and the world laughs with you; weep and you weep alone"—and the world about him reflected his smile. One day, while in the performance of his duty in the street, he was shot down by bandits, but even death did not end the influence of his smile, for it had become a community institution and it lives after him. It was his legacy to his city.

A FUND for the maintenance of his family and the education of his children was established by his townsmen, and a trust was created to administer the fund. So, in fact, as well as in figure, the bankers who are trustees of the fund are the custodians of a smile!

Some men put a good thought into a book and it lives after them.

Others put a good thought into their work, and one day formally deposit the thought with a trust company that its beneficent influence may go on.

Smith radiated good will in a business which has to do largely with ill-will, and did it so well that his townsmen reflect his smile in a trust.

Smiles help banks as they do individuals. They bring new business, they hold old business despite the well-laid plans of competitors.

In the human heart there are many frozen assets that a smile will liquidate.

By JAMES E. CLARK.

Savings Bank Division

Many Methods of Computing Interest on Savings in Existence. Plans for Reducing Losses Resulting from Excessive Payments Proposed. Uniformity Among Savings Banks of Country Sought. Administrative Problems, School Savings and Taxes Discussed.

MEANS to the end of all successful banking—proper margins of profit—were brought home forcibly to the Savings Bank Division at its meeting at the Philadelphia convention, which was called to order Monday afternoon, Oct. 1, by President George L. Woodward, Treasurer of the South Norwalk Savings Bank, South Norwalk, Conn.

The division heard the results of a nation-wide survey of methods of computing interest on savings undertaken by its Committee on Bank Facilities and Service which disclosed the existence of half a hundred different plans in actual use. The report of the committee submitted by the chairman, Paul A. Pflueger, Vice-President of the United Security Bank & Trust Co. of San Francisco (printed elsewhere) showed the enormous margin of losses to banks through too generous allowances of interest caused by unscientific methods of computation.

Fair to All

A CHOICE of four plans was presented as making possible a degree of uniformity in the computation of interest by the savings banks of the country designed to be fair both to the banks and their depositors and to reduce the heavy annual volume of banking expense on this item.

Growth of savings in the United States during the past year was stressed by President Woodward in his annual address. He said:

A survey of savings deposits in all banks as of June 30, 1928, while not yet completed, indicates that $28,000,000,000 of the $51,000,000,000 in individual deposits, or more than 56 per cent of all money deposited in the banks of the United States, are savings deposits and that approximately 85 per cent of the 27,000 banks of the country are receiving savings deposits. This indicates that there was an increase of $2,000,000,000 in savings deposits and 2,000,000 in the number of depositors during the past year.

The work of the Savings Bank Division has changed greatly and is keeping pace with the large increase in savings which makes it necessary that bankers be kept adequately informed of changing conditions throughout the country. The time has long since passed when the division's chief work was the planning of the program at the annual meeting.

Taylor R. Durham
Vice-President Chattanooga Savings Bank & Trust Co., Chattanooga, Tenn. Incoming President, Savings Bank Division.

Banks generally, doing a savings business, are placing dependence on the division to help them solve the problem developed by the greater complexity of modern banking.

Need for Conferences

STUDIES in economical bank arrangements; safe deposit vaults for country banks; amortization of real estate loans; tornado and flood insurance, the necessity for which has recently developed; the bond account of banks, cultivating good will among banks' customers and personal income management are some of the subjects receiving constant attention. At the division headquarters in New York there is now valuable information on almost every subject bearing on savings banks.

The demand for savings conferences in various parts of the country and the attendance at the conferences is increasing each year. This indicates that there is a real need for them. At the four conferences held this year at Seattle, Chicago, New York, and Richmond, Va., about sixty addresses on various subjects were delivered by practical bankers. While the conferences were held under the auspices of the savings division, all members of the American Bankers Association were invited and the participation by a large number of members outside of the division was very gratifying. Very satisfactory, also, has been the demand for advertising leaflets prepared by committees of the division and almost 400,000 of the present series were sold by the division.

Wise Spending

MANY agencies other than banks are attracting large amounts of savings deposits by offering higher interest rates and small industrial loans. In some states they stress the point that they are under the supervision of the banking department. Despite this strong competition the bankers are giving increased attention to the small industrial and mortgage loans on monthly payment plans at a reasonable rate of interest. The division conducted a survey, covering this whole matter, which is available for bankers interested in this subject. In many cases the same agencies which are competing with banks are escaping the heavier taxation imposed on banks.

Recognizing the large portion of individual deposits in savings departments, bankers of the country are giving a great deal of attention to the savings depositor and the education of the savings depositor has a large place in the up-to-date bank's progress. The

(*Continued on page 375*)

Administrative Problems and Their Solution

By HAROLD STONIER
Educational Director, American Institute of Banking

How New Bank Business Can Be Developed from Old Customers. Value of Analyzing Accounts for Prospects of Increasing to Future Points. Scientific Advertising Essential. Education of Personnel Through Standard Certificate Is One Solution.

IN traveling about the United States and visiting with various bankers and bank organizations, I have been impressed with the fact that there are certain administrative problems confronting bankers at the present time, and that bankers everywhere are interested in answering those problems.

I would not for a minute have it assumed that I am going to give any answers of my own accord or out of my own experience to these problems because that would be impossible, obviously. On the other hand, I have been impressed with the fact that certain bankers in different parts of the country are probably answering these problems a little bit more directly and a little bit more satisfactorily than they are being answered in other parts of the country. These are not all the problems that confront the administrative laws in running the managerial end of our banking institution, but these problems are pertinent in some localities and very properly so.

New Business

IN the first place, there is that problem of the development of new business. Probably there is no more general problem affecting bank administration than at this particular point. Several years ago a man by the name of Schrone in Boston conceived of a new theory in retail merchandising which he called "The Customer Control Theory," whereby he showed merchandisers how it was possible to develop new business out of old customers.

I think there is no more important thing to be considered by bank administrators than this: How can banks develop new business out of customers already on the books? I was talking to a man a short time ago in one of our cities who told me this:

"I have $480 in the savings department of my bank. It has remained $480 for several years. I haven't added to it, and I haven't taken away from it. I have a checking bank deposit also in that same bank. I have bought bonds and stocks. I have bought radios and automobiles. I have bought all kinds of conceivable types of purchases in that checking account. It has been rather active and perhaps over-active, but this savings account has always remained $480. Is it unethical for a banker to speak to his customer about an account which remains inactive for three years, and at the same figure so far as the principal is concerned? If we had that kind of an account in our own store, we would very soon investigate the account to find out why that customer wasn't doing more business with us."

Future Points

A CERTAIN bank in this country selected 4,800 of its savings accounts for study, and in taking these 4,800 accounts they wanted to investigate them from the standpoint of determining the best way by which they could develop those accounts from the point where they are now to some future point. They analyzed the accounts first from the standpoint of whether they were accounts of men or women.

Second, from the standpoint of the age of customer.

Third, from the standpoint of the customer's business or profession.

Fourth, why did the customer come to the bank in the first place?

Fifth, what probably is the best means of reaching that customer to have that customer increase his account?

That particular bank is analyzing and investigating 4,800 of its savings accounts with the idea of increasing those accounts from the point where they are now to some future point which they might determine upon as being a fair account from the standpoint of its size and its profit to the bank.

Bank Generosity

OTHER banks in their advertising are advertising promiscuously for a new customer. In some banks, in one city for instance, in order to get new customers in the savings departments, I saw a tremendous sign on the window which said, "With every new savings account we give the customer a membership in a certain golf club, thirty-three miles removed from the city." Just how they have figured out the consistency of their point of view I was unable to determine. In order to create an interest in savings they gave away a golf membership in a golf club thirty-three miles removed from the city.

Other savings banks I have noticed advertising the fact that they would give away two, three or four days' interest depending upon the extent of their generosity. I believe commercial advertising has gone beyond that. Commercial advertising is no longer based primarily on the price appeal. It is not based upon the idea of giving away something in order to buy business. Rather is it based upon the theory of results which will accrue to you by virtue of owning this particular commodity. It may be an automobile. It may be a radio. Whatever it might be, the ordinary merchant through his advertising is telling the general public what good will come to it by virtue of owning this, that, or the other commodity.

Cash Value of Savings

MANY banks are advertising only this: "We pay 3 per cent," or "We pay 3½ per cent," or "We pay 4 per cent," and leave the advertising to stop at that point, emphasizing only the price appeal in their advertising copy. I found one bank in particular making a very definite attempt to analyze for the customer what he might get as a result of a savings account entirely outside of the 3 per cent or 4 per cent that they might be paying. They have done a very good job in that particular department. As a matter of fact, there is very little education being done in America today educating the general public on the value of doing business by cash.

There is a great deal of education being done in America today on the value of doing business by the instalment plan, for instance, and I am not introducing the arguments whether good or bad. I am simply making this statement: The average person today feels he ought to be buying something by the instalment plan; he ought to be pledging his savings today and what he is going to earn tomorrow on this, that or the other thing. The whole tenor of education of the general public seems to be substantiating the position of the instalment buying idea.

(*Continued on page* 401)

Taxation of Banks Compared With Competing Institutions

By CHARLES H. MYLANDER
Secretary, Ohio Bankers Association

Banks Called to Arms to Fight Tax Discrimination by States. Preferences Given Competing Institutions Seen as Violating Existing Law While Repeal of Present Statute is Sought By Some States in Order to Impose Heavier Taxation Upon Banks.

> **Bank's Bulwark**
>
> *CLAMOR for the repeal of Section 5219 of the Revised Statutes imperils banking's only bulwark against unequal taxation according to Mr. Mylander who sees non-banking agencies being given valuable privileges even under the present law. His remedy is the education of congressmen and senators to the evils which have resulted from discrimination and this duty he imposes upon the bankers of the country. "Taxation of banks must be brought out into the open."*

THE subject of the taxation of banks as compared with the taxation of other competing financial institutions, is one which admits of several different treatments, and involves a condition which holds a distinct menace for the future prosperity of the independent banking system in the United States.

To approach the discussion intelligently it is necessary first to set out certain definitions which will describe adequately what is a bank and what is a competing financial institution. And, in order to save constant repetition of the phrase "competing financial institution," the discussion will be of "banks" and "quasi-banks."

First, then, what is a bank as the word is to be used in this discussion? Under the Ohio law, a bank, for purposes of taxation, is described as an institution which "keeps an office or other place of business and engages in the business of lending money and receiving money on deposit and buying or selling bullion, bills of exchange, notes, bonds, stocks or other evidences of indebtedness, with a view to profit."

Must Do All

THERE are three distinct functions described in this section of the Ohio code: first, lending money; second, receiving money on deposit, and third, buying or selling bullion, bills of exchange, notes, bonds, stocks or other evidences of indebtedness. It will be noted that these three functions are connected with the conjunction "and" and not the conjunction "or." In other words, for an institution to be taxed as a bank in Ohio, it must do all of the three things named in the statute.

Next, then, what are the competing financial institutions or "quasi-banks?" In the familiar case of the Mercantile National Bank versus the State of New York, one of the leading bank tax cases, the Supreme Court of the United States held that "moneyed capital is brought into competition with the business of national banks; first, where it is invested in the shares of state banks or private banks, and second, where it is employed substantially in the loan and investment features of banking in making investments by way of loan, discount or otherwise, in notes, bonds or other securities, with a view to sale or repayment and reinvestment."

It is apparent, however, from this language used by the court, that any institution which engages in two of the three functions hitherto given as descriptive of a bank, namely, lending money or buying or selling bullion, bills of exchange, notes, etc., is in competition with a bank.

Another Feature

IN a case brought by three national banks located in the city of Columbus, Ohio, which suit was sponsored by the Ohio Bankers Association, there was set up still another feature of competition, namely, that of competition for deposits.

It seems apparent, therefore, that an institution which receives money on deposit or lends money or buys and sells bullion, bills of exchange, notes, bonds, stocks or other evidences of indebtedness, with a view to profit, is a competing financial institution or quasi-bank.

What are some of these quasi-banking institutions, and just how do they compete with banks, both state and national?

Camouflaged Deposits

FIRST are the investment bankers. They buy and sell with a view to profit, bonds, stocks, notes and other evidences of indebtedness. They, therefore, compete with one of the functions of a bank.

Second are building and loan associations. These associations lend money. In Ohio, they also receive money on deposit. So far as I know, Ohio is the only state where building and loan associations are permitted, under the law, to accept deposits as such; that is to say, where the relationship set up between the depositor and the association is that of debtor and creditor. In many other states, however, where the sale of running stock, installment shares, paid up certificates, etc., is allowed these associations, the effect is that of receiving money on deposit and the average individual believes that he is engaging in the same relationship when he purchases one of these evidences of indebtedness as he is when he deposits his money in a savings account in a bank. It is safe to say, therefore, that in the great majority of the states in the United States, building and loan associations compete with two functions of a bank, namely, the receiving of money on deposit and the lending of money.

Third in the list of quasi-banks are the so-called finance companies. These companies compete with banks by their purchases of notes. Surely the discounting of notes is a well-recognized banking function and these institutions, therefore, compete with banks. In addition, they usually supplement the capital invested in the business by their shareholders with another form of camouflaged deposit. Sometimes this is done through the sale of debentures, sometimes through the sale of guaranteed notes, gold notes, etc., but in all of these camouflaged cases, they are in reality receiving money on deposit for which

they pay a specific rate of income and using that money in the business of discounting paper and, therefore, they also compete with two of the functions of a bank.

They Also Compete

WHAT is true of the finance companies is also true of real estate mortgage companies which probably, therefore, should come fourth on our list of quasi-banking institutions.

Fifth on the list of quasi-banks are investment trusts. These investment trusts compete with the banks through the purchase and sale, with a view to profit, of bills of exchange, notes, bonds, stocks, or other evidences of indebtedness. They also, through the sale of various types of debentures and preferred stocks, compete with banks for money for deposit.

Now, with definitions of banks and quasi-banks definitely set forth, the question of how banks and quasi-banks are taxed and whether or not there is any discrimination against the bank as compared with the quasi-bank may be attacked.

Above the Average

THE average national bank in the United States last year paid in taxes of all kinds 21.7 per cent of its net profits before taxes. If one were to take, as the basis for figuring the percentage, the net profits after taxes, this figure of 21.7 per cent would have been increased to 27.5 per cent and in many individual states, the increase in percentage would have been even larger.

In thirty-five of the forty-eight states of the Union, the percentage of taxes paid by national banks to net profits is greater than the average. The states which are less than the average are as follows: California, Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island and Wisconsin.

It is interesting to note also that in these thirteen states, some change has been made from the almost universal method of taxing banks in the United States, the ad valorem tax upon the value of the shares of the bank. The usual way in which this value is ascertained is by adding together the capital, surplus and undivided profits of the bank, subtracting from the total thus found the assessed value of whatever real estate is owned by the bank and dividing the remainder by the number of shares outstanding. Against this value, then is assessed the rate which prevails in the taxing district in which the bank is located.

In these states, where the tax paid is lower than the average, the rate is not the local rate, but is a state rate, fixed by statute. For example, in California the rate is 1.45 per cent of the value; in Connecticut the rate is one per cent; in Delaware the rate is 1-5 of one per cent; in Kentucky the rate is 1.3 per cent; in Maine 1.5 per cent; in New Hampshire 1 per cent; in New Jersey ¾ of 1 per cent; in Pennsylvania .4 of 1 per cent.

In addition to the two types of share tax methods which have been described, two states levy an income tax upon banks, namely, New York and Wisconsin; and Massachusetts levies an excise tax. Of course, every state has its own peculiarities in its tax laws, and yet most of the states tax their banks about the same.

It is interesting to note that while the average tax paid by national banks in the United States was 2.57 per cent of the capital and surplus, that the same states where the percentage of taxes paid to profits before taxes was less than the average also are under the average when the taxes paid are compared to capital and surplus.

Violating the Law

MANIFESTLY, therefore, the thirty-five states which are over the average are taxing their banks more heavily than do the states which are under the average, and it is rather interesting to note that practically every one of these states is violating the provisions of section 5219 of the Revised Statutes of the United States in that quasi-banking institutions are being taxed less than are the national banks in those states, and, of course, the state banks also.

In a number of states, these quasi-banking institutions are definitely exempted from all taxation except upon such real estate as they may own, and in practically every state there are certain preferences shown to them. Probably the most common of these preferences results from the fact that whereas banks usually are made the agencies for the assessment and the collection of taxes upon their shares, no attempt is made thus to collect the tax upon a share of a quasi-bank at the source.

TO give specific instances of this discrimination, let me cite two of the discriminations which exist under the laws of Ohio. Ohio is a uniform rule state; that is to say, all property, real and personal, tangible and intangible, in Ohio, is, according to both the constitution and statutes, taxable at its true or actual value in money and at the same rate. Bank stock, in Ohio, therefore, is taxed at its full value.

According to the peculiarly and cleverly drawn banking statutes in Ohio, the tax against bank stock is not against the bank, but against the holder of the stock. However, the bank is made responsible for the collection of the tax and in case the shareholders do not pay it, the bank itself is compelled to pay and in addition, heavy penalties for each day of delay. This procedure, of course, is common to practically every state which taxes bank shares by the ad valorem method and results, of course, in the tax being paid by the bank.

Consider one type of quasi-bank in Ohio, namely, the building and loan association. Ohio building and loan associations pay taxes upon such real estate as they may own just as does the bank. There is no requirement in the law, however, for the building and loan association to report the stock owned by its stockholders for taxation. The law does provide that the owner of such a share shall return it himself when making his personal property tax report; but since there is no requirement for the association to furnish the taxing officials with a list of its stockholders and their holdings, very little of this stock ever finds its way to the tax books.

Preference Enjoyed

IN an investigation made in the county of Franklin, the county in which the city of Columbus is located, where the published reports of building and loan associations disclose more than $15,000,000 worth of stock outstanding, less than $400,000 worth of such stock was returned for taxation.

Building and loan stock in Ohio enjoys still another preference in that if the shareholder returns such stock for taxation, he returns it as a credit and is given the privilege of deducting his debts from its value and paying taxes only upon the balance. In the Franklin county investigation this privilege resulted in taxes being paid on a little less than $190,000, although, as already stated, more than fifteen million dollars worth of such stock was outstanding at the time.

Another form of preference enjoyed by a quasi-bank in Ohio is that enjoyed by the mortgage, finance, chattel loan and other money-lending corporations which are neither banks nor building and loan associations. Under Ohio laws, the stock in these corporations is totally exempt from taxation, the theory being that the corporation itself pays taxes upon its assets and that to tax the stock also would be, in effect, double taxation upon the same property.

Pick a Small Village

OHIO corporation laws also provide that a corporation can locate what is known as its charter domicile any place it wishes at the time of its incorporation. As a result, we find that practically all of these money-lending corporations whose assets consist largely of intangibles pick as their charter domicile a small village or a township where the tax rate is low. For example, practically all of these quasi-banking institutions located in the city of Cleveland have their charter domiciles in Mentor Township, Lake county.

The tax rate in Cleveland is about 2.4 per cent; in Mentor Township it is 1.1 per cent.

These corporations are taxed upon their assets. A comparison between the balance sheet of one of these corporations and its personal tax return discloses some rather interesting discrepancies. For instance, one mortgage company located in the city of Cleveland, which in its return to the state for franchise tax purposes, placed a fair value on its stock of slightly in excess of

(Continued on page 403)

Four Methods Recommended for Computing Interest

Report of Bank Facilities and Service Committee, Savings Division

Greater Uniformity in Figuring Interest on Savings Sought. Survey Shows Half a Hundred Plans Now Being Used By Banks. Wide Difference in Results Disclosed on Analysis. Some Favor Banks But Many Give Away Large Amounts to Their Depositors.

A CHOICE of four methods of computing interest, each desirable for the bank and for the depositor, is recommended by the Executive Committee of the Savings Division of the American Bankers Association to secure uniformity among the banks of the country in figuring interest on savings.

After a study of all the methods in use in the United States, which revealed striking variations in the calculation of interest, the following plans were adopted:

Plan A

INTEREST to be compounded semi-annually. Deposits to draw interest from date of deposit, on all sums on deposit for at least one calendar month preceding interest date. Year to be divided into four quarters. No interest to be allowed on withdrawals made during the quarter. Withdrawals to be deducted from latest deposits.

Plan B

INTEREST to be compounded semi-annually. Deposits to draw interest from date of deposit, on all sums on deposit for at least one calendar month preceding interest date. No interest to be allowed on withdrawals made during the six months period. Withdrawals to be deducted from latest deposits.

Plan C

INTEREST to be compounded semi-annually. Deposits to draw interest from first of each month on all sums on deposit for at least one calendar month preceding interest date. Year to be divided into four quarters. On withdrawals interest to cease on first day of quarter in which withdrawal is made. Withdrawals to be deducted from latest deposits.

Plan D

INTEREST to be compounded semi-annually. Deposits to draw interest from first of each month, on all sums on deposit for at least one calendar month preceding interest date. Deposits made after the first of each month to draw interest from the first of the following month. No interest to be allowed on withdrawals between interest periods. Withdrawals to be deducted from latest deposits.

The Fifty Methods

Interest on the Accounts

Method	Account No. 1	Account No. 2	Account No. 3	Account No. 4	Total
1	$23.72	$18.75	$4.91	$5.70	$53.08
2	7.90	4.95	2.20	2.85	17.90
3	60.86	25.16	14.68	29.59	130.29
4	37.07	11.61	10.73	12.43	71.84
5	53.72	17.72	5.16	19.08	95.68
6	23.72	16.69	3.07	5.70	49.18
7	55.27	22.52	12.10	32.20	122.09
8	39.70	19.60	5.09	15.83	80.22
9	23.72	20.13	5.73	5.70	55.28
10	54.78	20.12	6.24	18.16	99.30
11	35.18	19.23	4.92	9.66	68.99
12	58.61	24.23	14.52	29.50	126.86
13	27.18	13.66	0	17.86	58.70
14	38.19	15.40	0	19.43	73.02
15	23.72	17.40	3.96	5.72	50.80
16	54.80	19.76	5.76	24.83	105.15
17	8.43	6.48	2.59	2.69	20.19
18	0	1.42	0	2.85	4.27
19	43.84	16.81	3.38	10.96	74.99
20	34.69	16.69	3.07	9.10	63.55
21	54.48	19.76	6.52	20.92	101.68
22	54.80	19.76	5.75	24.83	105.14
23	43.59	16.69	3.33	10.95	74.56
24	35.46	16.52	3.07	8.85	63.90
25	7.92	4.96	2.20	2.83	17.91
26	43.86	16.81	3.70	10.95	75.32
27	7.36	0	0	0	7.36
28	23.72	16.69	3.07	5.70	49.18
29	42.54	18.69	5.74	9.90	76.87
30	42.54	16.75	3.37	10.95	73.61
31	38.60	13.56	1.72	10.00	63.88
32	23.72	16.34	2.10	5.70	47.86
33	33.91	16.52	3.07	9.66	63.16
34	37.32	16.00	5.88	16.96	76.16
35	23.72	0	2.10	0	25.82
36	0	0	0	0	0
37	32.00	15.76	5.04	8.60	61.40
38	34.13	16.60	3.08	8.91	62.72
39	35.41	19.30	4.92	8.91	68.54
40	35.18	19.22	5.10	8.85	68.35
41	53.75	17.45	3.55	18.29	93.04
42	45.99	15.97	0	8.85	70.81
43	53.84	17.08	3.56	18.28	92.76
44	54.56	19.77	3.36	18.17	95.86
45	54.52	19.76	6.54	20.65	101.47
46	48.04	24.84	12.40	29.08	114.36
47	23.72	18.70	4.91	5.70	53.03
48	57.83	21.16	6.51	23.94	109.44
49	23.72	18.84	5.30	5.70	53.56
50	8.57	6.64	2.66	2.72	20.59

On savings accounts remaining dormant for two years, where the balance is $5 or less, it is recommended that payment of interest cease.

Most Popular Rate

RESULTS of the committee's work in the direction of uniform methods for computing interest were reported to the Savings Division at the Philadelphia Convention by Paul A. Pflueger, Chairman of the Bank Facilities and Service Committee and Executive Vice President of the United Security Bank and Trust Company of San Francisco.

On the basis of 888 replies to a questionnaire, some fifty methods of computing interest were found to be in use. Rates of interest on savings accounts vary greatly. By far the most popular rate is 4 per cent. The 888 answers to the questionnaire disclosed that 252 banks pay 3 per cent; sixty-one pay 3½ per cent; 508 pay 4 per cent; five pay 4¼ per cent; fifty-four pay 4½ per cent, and seven pay 5 per cent. In practically every instance the 4½ per cent and 5 per cent rates are paid by mutual savings banks.

In the wide difference in the interest paid on savings by the banks of the country, however, it was found to be the result of the methods used rather than in the rate allowed. The spread runs all the way from no interest at all to $130.29 depending upon the method used.

How They Work

THIS situation is illustrated by the accompanying table, which gives the results of interest computed at 4 per cent for six months' period on four selected accounts, when interest is figured by each of the fifty different methods.

Submitting his report Mr. Pflueger brought out that during the past year a number of banks have acted on, as well as discussed, the now widely studied question of interest paid. Not a few banks have reduced the rate they pay.

Camouflage Wrong

"ON the other hand," he said, "some bankers hold that it is better to change the method of computation than to lower the rate because the first departure would attract less attention. The wisdom and propriety of such a course is very doubtful. If it is necessary to cut interest costs, as many bankers firmly believe, there can be little doubt but that the most prudent and satisfactory course would be to reduce the rates. Change in method of computation to a stricter basis would not prove sufficiently effective; the use of the strictest possible method of figuring interest at 4 per cent would not produce

(*Continued on page* 405)

The State Bank Division

Better Banking and More Profitable Banking is New Slogan. Worth of State Banker in Improvement of National Situation Rated High. Business Outlook Forecast. Effects of Chains and Branches Reviewed. Plea Made for Steady Income for Farmer.

THE thirteenth session of the annual convention of the State Bank Division was called to order Tuesday afternoon, October 2, by President M. H. Malott, president of the Citizens Bank, Abilene, Kansas. His annual address (printed elsewhere) was first on the order of the day's business.

S. J. High, president of the Peoples Bank and Trust Company of Tupelo, Miss., was elected president of the division, and Dan V. Stephens, president of the Fremont State Bank, Fremont, Nebraska, was named vice-president. R. O. Lord of the Guardian Trust Company, Detroit, and T. O. Hammond of the Montana Trust and Savings Bank, Helena, Montana, were elected to the executive committee.

Better Banking

INSTALLED as president of the division, Mr. High said:

"We have made our slogan: Better Banking. I will try to add to that: Better Banking and More Profitable Banking. The great need of the small banks and the state banks of the country is to make more money. We will try to follow along that line. We have an able body of workers on our committee, and we are going to do the very best we can to uphold the division and to carry forward the plans and policies of my predecessors, which have been placed on sound ground."

The formal program of the meeting produced addresses which touched upon important angles of present day banking developments both from the standpoint of internal bank problems and from the side of general business and the new trends of the times.

New Trends

R. S. HECHT, president of the Hibernia Bank and Trust Company, discussed unit banking and the growth of branches and chain groups. Leonard P. Ayres, vice-president of the Cleveland Trust Company, forecast the future business situation as an era of profitable work rather than prosperity resulting from swollen stocks of gold in the country. Inequalities in state bank reserve requirements were analyzed by M. Plin Beebe, president of the Bank of Ipswich, Ipswich, S. D., Paul P. Brown, secretary of the North Carolina Bankers Association, discussed the installation of service charges on unprofitable checking accounts and Mr. High suggested measures of improvement in agricultural methods which would result in regular incomes for the farmers of the country. (Their addresses will be found elsewhere).

S. J. High,
President Peoples Bank & Trust Company, Tupelo, Miss.
Incoming President, State Bank Division

Been Influential

INTRODUCED by Mr. Malott as "a man who was the mastermason in laying the cornerstone of the American Institute of Banking and who was the bell-wether of the Division," "Uncle" George Allen said (in part):

"The State Bank Division has never done any lobbying. Two things it has been influential in doing. The amendments to the Federal Reserve Act, giving certain rights and privileges to the state banks are in the phraseology of one of the distinguished ex-presidents of our division; it never even got into the news.

"When the committee on banking and currency was not quite sure whether they ought to lengthen the charters of national banks or not, it was a state banker who said they ought, and I think that state banker's influence greatly accelerated, if it did not actually attain, that amendment.

There Is a Way

"TO deny charges against oneself is a boomerang. The opposite of that is also true. To be too aggressive, to make demands, to pass too many resolutions, and above all to get angry is always a boomerang and gets nowhere, and never ought to. I have no patience with people who find fault with Congress and state legislators and city legislative bodies; they represent with mathematical exactness the wisdom, the foolishness, the vice, and the virtue of their constituents.

"The questions that have been so well presented before you will depend upon their settlement largely upon the state bankers, because they are the nearest to the common people who have the votes. By doing it in that way, always being in a position to show that any deserved legislation is primarily in the interest of the public and not alone in the interest of the bankers, you will find the only way to make any progress in those directions."

Interest of the division in the steady improvement of banking service was evidenced in the resolution adopted urging uniformity in the banking laws of the forty-eight states. It follows:

"The complexity of modern business and its ever widening ramifications into fields of agriculture, trade, industry, transportation and the development of natural resources create additional demands upon the financial facilities of the country and tend to develop banking into an exact science. This condition emphasizes the necessity for the close observance of and strict adherence to the fundamental principles of safe, sound and conservative banking methods. These principles are basic and are operative in every state. As national banks wherever located are governed by the provisions of

(Continued on page 413)

Better Banking

By M. H. MALOTT
President, State Bank Division and President, Citizens Bank, Abilene, Kansas

State Bank Division Facing Problems Pressing for Solution. Excellent Banking Service is the Defense Against More Regulation. Credit File Now a Requisite for Small Loans. Bankers Urged to Build Secondary Reserves of Marketable Bonds and Paper.

THE State Bank Division, with approximately 10,000 members of the American Bankers Association—one-half of its entire membership—presents a far-flung and varied battle-line with which to challenge our attention and efforts. Our membership is largely composed of country banks; we are governed by the rules and regulations of forty-eight bank commissioners, and are subect to the mandates of forty-eight codes of banking law. Hence the problems of this division are legion. Nor have our tasks awaited us—they are full-grown and are pressing for solution.

During the year the battle-cry of our efforts has been "Better Banking." One of the outstanding pioneers in this "better banking" movement is Craig B. Hazlewood, President of the Association. Those of you who have read his brochure, "A Program for Banking Progress," sent to every member of this division, have already seen a vision of what we hope to accomplish. The tasks are great, and are not alone for any single administration to solve. But our aim has been to carry forward the division's efforts, ere we lay down the command.

The very keynote—"Better Banking"—connotes something lacking in our banking service, else "Better Banking" is an unnecessary topic to discuss. Statistics, however, furnish us with evidence and proof. Between 1920 and 1926, inclusive, more than 3,800 banks, somewhat more than one-eighth the total number of banks in the country, were obliged to suspend operations, and although some eventually were reopened, the aggregate of definite failures has been in excess of 3,000.

Fewer Banks the Slogan

NO single cause, of course, is responsible for this debacle. We are all familiar with the inflation of the post-war period, the expansion of banking credits, and the subsequent collapse of business with its aftermath of frozen loans and shrunken values. We all know of the succession of crop failures, collapsed real estate booms, and the persistence of unprofitable prices for products of agriculture and animal husbandry, coming after years of prosperity and high farm values. Yet the fact that many a stout banking craft, ably steered, did weather the storm, gives cause for query as to why other ships

"BANKING is today becoming a profession, and those who would engage in its practice must keep constantly on the hunt for better methods, for those who do not progress are lost, and he who would keep pace with better banking must discard the old and adopt the new. The difference between old-time banking and the emerging profession of business today is the result of the effort to establish guiding principles, underlying fundamentals, recognized by the leaders of banking and finance."—M. H. MALOTT.

went down. A study recently completed by the Economic Policy Commission of the American Bankers Association gives as the cause for these failures, not primarily dishonesty or gross mismanagement, but either the excessive number of banks, or the financial weakness and unskillful management to which banks are often subjected.

We must place the responsibility upon restrictive legislation to care for the problem of excessive banks. In many states today bank commissioners or banking boards may determine questions of charter. "Fewer banks with adequate capital and efficient management" should be the slogan of these authorities.

Out-of-Pocket Expense

THE other problem, that of the weak and poorly managed bank, is not so readily dumped upon the public conscience. It is true that the people of the country have a right to and will demand sound banking service. If the bankers fail to furnish it, they will seek recourse in our legislative halls. But legislation cannot take the place of aggressive and thoughtful management; legislation in fact too often leads to over-regulation, which results in bewilderment, dissatisfaction, or public control. But we bankers are not ready nor willing to give up our American tradition of private management—hence we must through our own efforts give such an excellent service to the public upon whom we depend, that the people of this country will have no cause for alarm in the nation's financial machinery.

It has been the privilege of our division to cooperate with the Clearinghouse Section in recommending to our membership the importance of service charges on unprofitable accounts. You are familiar with the object of the service charge, to reimburse the bank for its out-of-pocket expense in handling a customer's account, and the Clearinghouse Section's booklet on "Service Charges," a helpful textbook on the installation of these charges, has gone to the entire state bank membership. At the present time, over 11,000 banks in 2,000 cities and towns have instituted the service charge, and the practice is spreading by leaps and bounds until it bids fair to be almost universal. We are also cooperating with the Clearinghouse Section in the establishment of regional clearinghouse associations and I commend to you for further thought the question of the value which these local associations may be in facilitating closer relationship and protection.

On a Parity

THE State Bank Division is particularly interested in the recent enactment by Congress providing that all banks and trust companies organized under the general laws of any state, which are members of the Federal Reserve System, are now eligible as depositories for government funds, thus placing them on a parity with national banks for the deposit of such funds.

The division also calls your attention to the trend toward uniform state banking laws. This year Virginia has adopted a new banking code which shows the trend, and in the last three years fifteen states have enacted similar laws.

For several years the division has constantly advocated that each bank adopt the slogan "A Credit File for Every Borrower with Unsecured Loans of $500

(*Continued on page* 407)

EDITORIAL

New Currency

IN just about a year the new paper currency of reduced size will be in circulation. The Bureau of Engraving and Printing has been engaged in printing the new notes for more than two months. They will be issued when properly aged.

It is time for the banks to undertake their share, which will be by far the biggest share, of the task of replacing the old currency with the new. Education of the public will be the most difficult step in the whole operation. That burden must be borne by the banks.

It will not do to wait until the new bills, only two-thirds the size of the present currency, are actually in the bank cages, ready to be paid out. There must be missionary work. The Government will do what it can, but it will be up to the banks, through direct contact, to smooth the path of the change.

There are many persons who never heard of the reduction in the size of paper currency now being made. Many never will hear of it until the smaller bills actually are in their hands, unless someone tells them about it.

That is the bank's opportunity. A customer's check is cashed with the remark that perhaps by this time next year his roll will not be so large—in size. The Treasury says the new, and smaller sized, currency will wear better and last longer. Education is more effective than explanation.

The new currency will bring mechanical problems for the banks. There is a year in which to solve them. It is too late to argue whether or not the currency should be changed; it is being changed. It is none too soon to get ready for it.

The Super Questionnaire

IN an age of questionnaires the Government has achieved a masterpiece. The Federal Trade Commission has sent to the utility corporations of the country a volume of 225 pages containing 78 separate forms to be filled out, some of them consuming several pages.

This is part of the investigation of power utilities ordered by the Senate. But it will be a long time before the hundreds of neatly ruled columns of questions sent out by the Commission can be filled in. It may even supply some accountants with a long job.

Yet the information sought will be of inestimable value to banks when it is compiled. The questionnaire covers the activities of electric and gas utilities, holding companies for such utilities, service companies for such utilities, other affiliated companies and consolidated operations. In addition to the thousands of individual items of information sought, it is suggested that each holding company should prepare a consolidated balance sheet, consolidated surplus and income statements, and also consolidated statements of income from operation of electric and gas utilities, electric utility operating revenues and expenses, and gas utility operating revenues and expenses.

When such information is available banks, and their customers, can learn all there is to know about utility corporations.

A Lost Market

"SINCE the close of the fiscal year, 1913, there has been no shipment whatever of American beef to England," says an editorial in the Washington *Post* of September 15. "Nor is it likely that there will ever be again. Yet the Londoner consumes as much beef as ever. The great stalls of the Smithfield market, which is the distributing center of English meat trade, are filled each day with thousands of quarters and sides of foreign beef. Millions of pounds are brought in from Australia in the form of frozen carcasses, and more millions of chilled beef reach the same market from Argentina and Brazil. Nor is the Englishman troubled by high prices, for some of the heaviest beef ever offered in any market is to be bought in London today for six pence, or twelve cents, per pound at wholesale, while the less desirable forequarters were bringing only four pence, or eight cents, last week. The wholesale price in Washington this week was thirty-two cents for hind-quarters, and from twenty-one to twenty-four cents for 'fores.' Ten years ago the packers were urging the public to 'eat more beef.' That advertising campaign has been abandoned, and instead farmers are urged to raise more cattle. But the free range is gone and with it the foreign market. Beef will never again be produced within the United States at a figure low enough to warrant the hope that the British market for American beef can ever be recovered."

Exports of beef and veal have been steadily declining since 1910, when the total exports amounted to 71,718,000 pounds, down to 1926, when they had fallen to 3,716,000 pounds.

There may be scant comfort in the reflection that what has happened was an inevitable outcome of our progress as a nation. Progress, settlement, the advancement of transportation, the growth of communities, steadily closed the area of the free range. Public lands became private lands, and a new order of things was created.

Other countries engaged in raising beef, and selling in the markets of the world, probably are now enjoying those natural conditions under which the great cattle industry of America was developed and reached across the seas. In Australia, for illustration, it was reported not long ago that there was then going on a discussion as to whether the interior of the continent would ever be worth while, just as in this country there once raged hot debates as to whether the west —now developed and dotted with glorious cities—was worth while. In those times, there were many otherwise intelligent men who were firm in the conviction

that our west—even the middle west—was destined to be a wilderness forever.

It is because we conquered the wilderness that, through the years, many new items of export have been added to the list, and the total of exports under many headings has increased. A decline in any industry is something of general concern, and something always to be regretted, but with progress some commercial recessions are unavoidable.

Government Banking

REGARDLESS of the outcome of the November elections, the chief problem which will face the new incumbent of the White House will be a banker's problem—the financing of the Federal Government.

Banking opinion will be the public opinion most thoughtfully considered. Banking opinion will constitute expert advice. Consequently the banks must be ready with their views.

The policy with respect to the public debt is the crux of the future fiscal plans of the Federal Government. Expenditures are mounting. Receipts are not keeping pace. Demand for further tax reduction persists. The volume of annual debt reduction is being pointed to as a source of funds for ordinary expenditures without change in the level of receipts.

Bankers, generally speaking, have favored substantial reduction in the public debt. In the past nine years the public debt has been reduced by about $9,000,000,000 from its peak of $26,596,000,000 on August 31, 1919. Enormous surpluses in the Treasury made this record possible. But the era of surpluses seems to be over.

Nevertheless, the estimate of debt retirement through fixed charges for the present fiscal year ending June 30, 1929, is $541,623,394. The most important item in this total is the amount which is to be expended for the account of the cumulative sinking fund.

When the sinking fund was inaugurated in 1920, the first appropriation was $253,404,864. For the present fiscal year it is $369,209,094. Each year the sinking fund is increased by the interest which would have been paid on any bonds or notes purchased for sinking fund account during the year or in previous fiscal years. It is like a snowball.

Obviously, annual reduction of the public debt is essential to the national credit. But the banking problem is the determination of the proper rate of reduction. Conditions are changing. It cost the Treasury 4½ per cent to redeem the 4¼ Third Liberty Bonds outstanding on September 15, and that was a maturity that had to be met. Previously refunding operations have been possible at rates lower than the maturing securities, which meant a saving in interest charges.

Debt reduction also means a saving of interest charges. Yet the more interest charges are reduced through debt retirement, on account of the sinking fund, the larger the annual sinking fund grows.

The question is not how rapidly the debt should be reduced with the aid of surplus revenues, but how rapidly through fixed charges.

Shorter Days and Shorter Weeks

THE establishment of a six-hour day and a five-day week for labor is being discussed, though perhaps this is but a bargaining proposition with the real objective the abolition of the present half-working day on Saturday, which some regard as an economic loss.

Back in the time when the eight-hour day was in its propagandistic stage, there were many conservative men who thought that business could not stand the payment of a living wage for so short a day. Some even thought that there was something inherently wrong in a change that released a man from working while there was any work left in him. But the eight-hour day became a custom, and both industry and the direct beneficiaries of the shorter day prospered with it.

The present proposition does not, however, rest on exactly the same basis, nor does there seem to be the same economic and physical reasons for it. Before the establishment of the eight-hour day, getting to and from work was more of a problem for mechanics and factory employees than it now is, especially in those sections where the winters are severe. Means of transportation were comparatively crude and slow, and the education of the public as to the economic value of good roads was still being carried on. Often it was an exhausting ordeal to get to the job. A new and a better condition now prevails, which gives better margins of time on either end of the working day, notwithstanding the fact that many men—mostly executives—commute tremendous distances.

While experience has demonstrated that the nation can afford the eight-hour day, what have we to assure us that we can afford a six-hour day with only five of the days in a week?

If this working schedule were established, it would cut off about 14 hours of working time a week for which, it is assumed, the working man would want to be paid as of yore. If he were receiving 50 cents an hour, the new order would in effect give him, according to the present working time, $7 per week that he did not earn; if his rate of compensation were a dollar an hour, the difference would be $14 a week.

When one commences to make estimates based on the number of workers who would come in under the ruling, the results are tremendous, and the question arises, "Where is it coming from?" One necessary effect would be to increase prices, already generally considered to be reasonably high, on every item of amusement, as well as on the necessaries of life.

Would it be economically possible? Our high tariffs keep out cheap goods, our immigration laws were designed to keep the country from being flooded with cheap labor, but according to reports many thousands of foreigners steal into the country every year, and the shorter day and the shorter week will add to the determination of those who want to get into America.

Less work for the same money in effect means that the seller must get more money for a given article, which is not perhaps so difficult here at home, but when the surplus is offered in foreign markets American goods are faced with the competition of goods made where labor is cheaper, the working hours longer and the standard of living lower. We need all the foreign trade we now have; and we will need more and more as time goes on to keep business on an even keel.

A question also arises as to what this proposal would do to our standard of living. Will it help us to increase it or will it have a repressive effect? And, finally, what shall we do with our leisure—not a facetious inquiry, for even with such leisure as we have there is a suspicion abroad that not yet have we learned to turn that leisure to good use!

As Cartoonists View Events of the Day

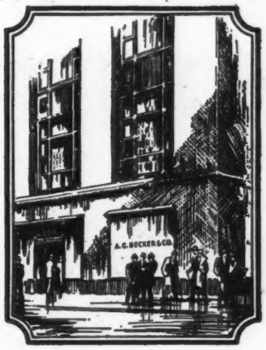
The Signs of These Times.—John Cassel in the Hartford Daily Courant

Race Suicide.—Cargill in the Arkansas Gazette

Building Accident?—Harry Murphy in the Chicago Herald and Examiner

Step by Step.—Knott in the Dallas News

INVESTMENT COUNSELLORS TO BANKS SINCE 1893



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Unit Banking and the New Trend

By R. S. HECHT
President, Hibernia Bank and Trust Company, New Orleans

Unit Banking System Declared In Danger of Being Superseded. Life of Independent Believed to Be Threatened by Expansion of Chains and Branches. Curb by Legislation Not Practical. Improved Banking Practices Salvation of the Independents.

THE tendency of the times is toward combinations and the bringing of scattered businesses under unified control. This is true in the field of production as well as in the field of distribution, and almost daily we read of huge mergers of industrial plants, the establishment of new cooperative associations, the formation of large holding companies or investment trusts, and the opening of new branch houses and chain stores.

Our government has been keeping a careful watch on this tendency toward concentration of wealth and power, and there are on our statute books some rather strict laws designed to curb any undue spread of such combinations, especially when they may be considered to be in restraint of trade. More recently, however, even our government seems to have somewhat modified its views along this line, as is illustrated by the complete reversal of its attitude in the matter of railroad administration.

What a Reversal!

IT is only a few years ago when any effort to merge small competing units of transportation into a large organization would have brought the promoters into conflict with the Federal authorities as violating the Sherman anti-trust act and other similar laws. Yet today the government, because of the changed economic conditions, is itself encouraging the consolidation of all railroads into just a few strong organizations which would be best able to effectively and economically handle the ever-growing volume of American trade.

Shades of Theodore Roosevelt! What a complete reversal of government policy in one short generation!

Commerce and industry have readily adjusted themselves to these changed conditions, and have found in the building up of bigger and stronger units great opportunity for the elimination of duplication and waste, and for consequent greater margins of profit.

Gigantic Mergers

IN the financial world, too, there are daily developments indicative of the same general trend toward greater concentration and the creation of larger units. The announcement of gigantic bank mergers, capital increases, the formation of large new banks, and the opening of additional branch offices, all testify to the fact that banking is strongly inclined to follow the lead of "Big Business" in this respect.

> **Sink or Swim**
>
> *"IT behooves us to put our house in order and to take the initiative in correcting the evils from which the unit banks have suffered, for the final test will be what system really renders the best service. We have come to the cross-roads of our financial future. The choice lies between improved banking practices among the unit banks or ultimate absorption by a centralized system. It lies between financial independence and monopolistic control."*—R. S. HECHT.

But this apparent transition in our banking system is not generally accepted with the same equanimity as are similar changes in merchandising and industrial organizations. For the fear of monopolistic control of our finances is as old as the country itself, and the very thought that we could ever drift into a state of financial feudalism or economic vassalage to a limited few is repulsive to every American.

That is the real reason why, notwithstanding this modern tendency toward combinations and unification, we still have the nation's financial business carried on by literally fifty-seven varieties of banking institutions.

The Independent Spirit

TO begin with, the control of our state banks rests on forty-eight different sets of state laws. Then we have six kinds of banks operated under Federal laws, namely, the national banks, the Federal Reserve banks, the Federal land banks, the Federal joint stock land banks, the Federal intermediate credit banks, and the postal savings system. Add to these the mutual savings banks, the trust companies, and our private banking institutions, and the full quota of fifty-seven varieties is accounted for.

This diversified banking system is the natural outgrowth of our well-rooted American tradition of self-government, and is built upon the independent spirit and intense individualism of our people. It has had a slow and gradual development and has undergone many changes to adjust itself properly to existing conditions. But each of the fifty-seven varieties, jealous of its own rights, has contributed in large measure to the upbuilding of our country and the preservation of the decentralized character of our American Banking System.

However, it behooves those of us who are genuinely interested in the future of our independent banking system to recognize that, even though the unit banking system is essentially American, and apparently best suited to our business practices, it is nevertheless in danger of being seriously affected if not entirely superseded by more centralized organizations such as are in vogue in some of our neighboring countries.

Steadily Drifting

INITIATIVE and independence have always been regarded as two of the outstanding American characteristics, and the individual responsibility that goes with the management of 25,000 locally owned and locally directed banks has been a great factor in the development of individual character and national prosperity.

It would be an irreparable loss to the nation if this individualism in banking had now to give way to centralization of power in the hands of a few strong institutions, and it would certainly be a disappointing experience for thousands of independent bankers if, instead of being able to guide the destinies of their own institutions, and to aid their communities as their interest in their community life dictates, they had to become hirelings of any one of a half dozen or dozen great systems.

It is not my purpose to conjure up the popular bogey of a financial octopus, or

to lead you into any controversial discussion of the relative merits and defects of the branch and unit banking system. But I do want to bring home to you the thought that it would be folly to shut our eyes to the fact that the banking business, too, is steadily drifting toward more and more concentration, and that if present tendencies continue unchecked our individual banking system may ultimately be replaced by a system of branch banking.

At a Rapid Pace

NOR will we be able to stem this tide toward centralization by hostile resolutions, or memorials addressed to legislatures and to congress appealing for still more legislation. Three times in the past ten years, in Kansas City in 1916, in New York in 1922 and in Los Angeles in 1926, the entire American Bankers Association has adopted with but few dissenting votes vigorous resolutions, condemning in unequivocal terms the spread of branch banking "in any form."

We have "viewed with alarm," "disapproved," and "expressed our opposition to the plan." We have declared it as "detrimental to the best interests of the people," "contrary to public policy," "violative of our principles of government," "economically wrong," "monopolistic," and "un-American." And yet during all of that time the growth of branch banking has continued at a rapid pace. In fact, during the past twenty-five years the number of branch banks has practically doubled each five years, as may be seen from the following figures taken from a recent Federal Reserve Bulletin. The record of branch banks is given as follows:

In 1900	60
In 1905	166
In 1910	329
In 1915	565
In 1920	1,052
In 1924	2,233
In 1928	2,989

Surely no further proof is required to convince you that this problem has assumed menacing proportions, and that there would be few unit banks left in the United States in another twenty-five years if we continued to drift in the same direction and at the same rate of speed.

Facts, Not Theories

CAN you doubt that our unit banking system is in real jeopardy, and that we are dealing with cold, incontrovertible facts, not theories? And is it not clear to you that we must, if we expect to maintain the integrity of our independent banking system, find more effective means of preventing this alarming spread of branch banking than staging debates at our bankers' meetings and passing resolutions condemning the evils of branch banking?

In this connection the question is frequently asked, how it is possible for branch banking to continue to grow as it does if the public is as much opposed to it as our past resolutions would indicate? The fact is that the public itself has taken little interest either in the promotion or prevention of branch banking. Nor has the average business man taken the trouble to study the fundamental principles governing either unit or branch banking. He does not realize, therefore, to what extent his own independence of action may be affected by the manner and control of our banking system, and it does not seem of any immediate concern to him who owns the stock in his bank, as long as he gets good service, enjoys proper credit facilities at reasonable rates, and last, but not least, as long as he knows that his bank is safe.

On Deaf Ears

WE can, therefore, expect but little support from the average customer of the bank in our efforts to protect the unit bank from the steady encroachment of the large branch bank institutions, and I feel sure that any appeal to the public to help in that direction will fall on deaf ears. In fact, we are not infrequently told that the only real objections to the branch banking system come from the unit bankers themselves, and that their arguments are necessarily colored by self-interest, and are based on the fear of interference with their own business.

Moreover, there are in our own circles many able and conservative bankers, who, notwithstanding the almost unanimous objections to the principles of branch banking expressed by our previous conventions, sincerely believe that the spread of branch banking is entirely logical and in line with modern American tendencies. They do not look upon it as a problem of the future; they feel, rather, that branch banking has already become an integral part of our banking system and that its expansion is inevitable and that we should not interfere with it.

They point out, however, that conditions in this country are quite different from those in Canada and England, and that it is not likely that the 25,000 independent banks will entirely disappear and be replaced by branch banks during the lifetime of our present generation. There is not much comfort nor consolation in that view, for while it may be true that the death of our unit banking system will come by slow degrees, no one who has studied the financial history of other countries where unrestricted branch banking is in vogue can have any doubt as to what the ultimate outcome would be.

Time for Action

I HAVE the highest respect for the ability, the courage and the progressive spirit of those splendid American bankers who in recent years have succeeded in building up such gigantic and successful branch banking institutions, and whose influence in one form or another already extends from coast to coast. But, although the institution over which I preside maintains in New Orleans nine "additional offices," as the comptroller used to call city branches before the passage of the McFadden bill, my sympathies always have been and still are entirely with the opponents of branch banking, and whatever may be the defects of our present system I believe it to be preferable to unlimited concentration of financial power and the creation of a banking monopoly in the hands of a limited few.

However, there is no doubt in my mind that positive, intelligent and systematic efforts must be made if we expect our present banking system to survive, for a considerable wedge has already been driven in the independent banker's stronghold by the branch bank advocates, and once having succeeded in putting their foot in the door they will spare no effort to constantly open it a little wider at every opportunity.

The time for "resoluting" on the subject has passed. The time for action and concerted effort has come.

Bitter Debate

PERHAPS the most definite forward step taken recently toward the future limitation of branch banking was the adoption last year of the McFadden-Pepper bill, which became the eighteenth amendment to the Federal Reserve Act. Few changes in our banking laws have ever been the subject of more bitter debate than this bill. It was denounced as a "branch banking bill" by one group, and attacked as an "anti-branch banking bill" by another.

While it authorizes, with certain restrictions, the establishment of new intra-city branches for national banks where state banks have the same privileges, it absolutely prohibits the future establishment of branches outside the city limits, either by state or national bank members of the Federal Reserve System. It also makes it impossible for state banks which may join in the future to bring into the System any branches established after February 25, 1927, outside of the limits of the city where the head office is located.

An Effective Embargo

THUS the Federal Reserve System, although it has no coercive power over state banks, exercises a great restraining influence against branch bank expansion by state banks as well as by national banks; for any state bank establishing branches outside the city limits of its head office would do so at the certain cost of having to relinquish its membership in the Federal Reserve System, a price which no bank of any consequence is likely to be willing to pay for that privilege.

We had 26,346 incorporated banks in the United States on June 30, 1928. Of these, 8,933, or more than one-third were members of the Federal Reserve System; and these member banks control over two-thirds of all our banking resources. The Federal Reserve System therefore occupies such a dominant position in the financial world today that the control given it under the McFadden-Pepper bill, unless later amended, really amounts

(*Continued on page* 370)

Inequality of State Bank Reserve Requirements

By M. PLIN BEEBE
President, Bank of Ipswich, Ipswich, S. D.

Unrelated State Reserve Laws Classed as Strictly Homemade. Need of Uniformity and Wisdom of Placing State Bank Reserves on Same Footing as National Institutions Stressed. The Advisability of Wider Field for Reserve Investments Urged.

Haphazard Laws

LETHARGY on the part of bankers toward reserve requirements has no place in modern banking where there is a consistent struggle for profits. Inequalities in the various state laws make the factor of legal reserves an element of competition as between state banks, as between state and national banks and as between member and non-member banks of the Federal Reserve System, according to Mr. Beebe.

ONE of our best known American humorists, after reading Webster's dictionary made the statement that he found it rather difficult to follow the plot. A person, after studying reserve requirements of our several states would be forced to the same conclusion. If the matter of state rights was ever asserted it has been with reference to reserve requirements. Apparently they were strictly "homemade" and were the creations of as many minds as there were states.

Little attention seems to have been given to the stability of one state over another and time, the great stabilizer of the universe, seems to have brought out few changes in reserve laws. If a study of the origin of the reserve laws were made I believe it would be found that the financial bent of mind of the men who drew these laws is written indelibly into the statutes of each state. There is no way of explaining why Idaho should enjoy only Federal Reserve requirements while Montana on the east requires 15 per cent and Colorado on the south 25 per cent, or Oklahoma 25 per cent, Louisiana 20 per cent, Alabama 15 per cent and Tennessee 10 per cent.

It is hard to understand the lethargy on the part of bankers in the matter of reserve requirements. Possibly in days gone by when the banker had as many side lines as a modern 1928 drug store, his profits were such that he did not bother about the cost of doing business. He was undoubtedly too busy clerking an auction sale, financing some new manufacturing plant or possibly inspecting a loan. Business was good, profits were likewise, and why bother with dividends to be made within the bank when plenty were coming from the outside?

Bending Backward

MANY bankers had a painful awakening when they looked into the faces of their stockholders expecting to be congratulated when they used the time worn excuse in passing a dividend that the bank was fortunate in holding its own and not running behind. They overlooked the fact that they had been drawing a salary for the past year and that the stockholders put their money into the bank with the expectation of receiving a substantial dividend and for no other reason. The average stockholder does not pose as a philanthropist. He is satisfied with a fair return but he wants that.

Bankers have unknowingly allowed many avenues of revenue to slip away from them in the past few years due to the "specialist" craze until banks are being stripped down like unto the old fashioned apothecary shop which handled only drugs. Bankers have been forced to make a deep study of late years of the cost of banking. They found that that greatly misinterpreted word "service" has proved a boomerang in many cases. They educated their customers to expect numerous courtesies without charge many of which were outside of the realm of banking. Now there is a great "back to the constitution movement" so to speak. Bankers are casting to the winds the thousands of dollars spent in advertising the fact that "one dollar opens an account," "the bank that is built on service," etc., and in some cases are bending so far back that they are liable to break their spinal columns in putting in numerous charges, all of which are perfectly legitimate, but which of late years have been cast into the discard in the endeavor to buy business under the misnomer of "service".

Facts Boiled Down

IN this endeavor to get back to better banking, or let me be really honest and say, better paying banking, bankers in many states have overlooked their reserve requirements. I would like to reach those who are looking for an idea or so which will mean thousands of dollars in real dividends to their stockholders without any appreciable loss in the financial standing of their institutions. I will preface these observations with the statement that forty-three Legislatures will meet this coming winter. Abstract statements mean little to most of us. What a banker wants is real facts boiled down to the last minute.

A certain bank in the agricultural Northwest was cursed with a bank guaranty law. Each year it paid approximately \$2,500 into this hole—assisting in paying a bounty to sustain a competitor who was not a banker, never could and never will be. In fact, time has already eliminated him from the banker's gallery and he has passed into another better known gallery of faces. The old saying that necessity is the mother of invention is still working twenty-four hours a day. We all know a number of bankers who have been talking to themselves the past few years. Consequently, it was not surprising that this one began arguing with himself as follows: "If United States bonds are the premier obligation of the world why can they not be used as bank reserves? They are the same as cash and can be converted into real money on a few minutes' notice. Why allow this money to lie in our reserve banks at 1½ per cent and 2 per cent when Uncle Sam will pay us around 4 per cent?"

This banker had a real vision. He drew up a law allowing the banks of his state to invest 60 per cent of their

reserves in United States bonds to be carried at market. The reserve requirements of that state were 20 per cent for reserve banks. The legislature promptly saw the real merits of the bill and it immediately passed both houses without a dissenting vote. The banker found that the difference between the rate he received on his bonds and what his correspondent banks paid took care of this vexatious guaranty assessment, and he had sufficient surplus funds to do business with. Now the guaranty law is practically done away with and he has $2,500 each year for surplus or dividends.

This banker made one mistake in drawing the law. He limited it to United States bonds. He should have at least included all obligations of the United States. About 46 per cent of our states allow banks to invest a certain proportion of their reserve in United States bonds. Fifteen per cent allows an investment from 50 per cent to 60 per cent of their reserve. One-fourth of the 46 per cent of the states go further and allow the bank to invest in its state bonds in lieu of United States bonds. I am inclined to believe that each state should have the privilege of investing a part of its reserve in its own state bonds. A greater return can be expected, which spells greater profits. It keeps the interest at home and cultivates a state price. Fundamentally, a state should finance itself within its own borders.

In discussing inequality of reserves, the requirements of national banks should at all times be considered. Our business must be run in such a way that we can compete with them on as even a keel as possible and at the same time be fair to our customers and stockholders. I understand that the national system has two central reserve city banks, New York and Chicago, which are required to keep 13 per cent of their demand and 3 per cent of their time deposits with the Federal Reserve Banks. Then there are reserve city banks in sixty-three cities, the requirements of which are 10 per cent and 3 per cent, and also that great body of national banks whose requirements are 7 per cent and 3 per cent.

Those Days Are Past

OF course there is a joker in the law as these banks must keep a certain reserve to do business with. Most states require a reserve bank to carry a larger reserve than a non-reserve bank, but the national system places this obligation upon the national banks of only sixty-five cities. Therefore the national banks which are not in this class but still act as reserve centers for their country correspondents carry the same reserves as their country correspondent. This places a reserve state bank in many states at a decided disadvantage. There is considerable merit to the national law making reserve requirements the same in every state. I admit at the time when the West was developing there were good and valid reasons for the banks of that section carrying larger reserves than those of the solid and conservative East. Things were unsettled. Those days are past and there is no longer an East and West, North or South. We are a United States.

Considering these facts why should one-fifth of our states require their reserve banks to carry practically the same reserve as national banks on a demand deposit, while four-fifths require from 10 per cent to 25 per cent?

We are agreed that two systems of banking are most essential to our business life, but why should four-fifths of our states penalize their own state banks and force them to compete with the national system on such an unfair basis? This situation was emphasized during the deflation when banks in certain sections began to feel the lack of public confidence. Millions of dollars flowed into the postal savings. Postal savings funds were immediately redeposited at a profit in banks in states with low reserve requirements, while the states which were hit the heaviest unfortunately had high reserve requirements, and, therefore, could not handle a postal savings deposit at a profit. Numerous state banks are now absolutely foreclosed from receiving other government deposits for the same reason.

Some Real Surprises

IF each state did not have a competent superintendent of banks and a corps of efficient examiners, there might be some reason for such high reserve requirements.

In averaging up the reserve requirements of the several states we have had some real surprises. You would naturally think that non-reserve state banks would be required to carry smaller reserves on demand deposits than reserve state banks, but we find that 8 per cent of the states allow their non-reserve banks to compete with national banks on this class of deposits against 20 per cent of the reserve state banks. If these percentages were reversed, they might come within the rule of reason. We have ascertained that about one-fourth of the states have no reserve requirements on certificates of deposit for reserve banks, while one-fifth meet the national requirement. One-third of the states demand a reserve of from 15 per cent to 25 per cent on this class of deposits. The requirements of non-reserve banks are not so high, and on savings accounts they are still less.

When it comes to reserves on "other deposits" we discover that one-half of the states require a reserve bank to keep from 15 per cent to 25 per cent on this class of deposits and two-fifths of the states require the same reserve from non-reserve banks.

We are baffled to learn that one-third of the states require a reserve of 15 per cent on checking accounts from reserve banks and two-fifths require the same reserve from non-reserve banks. By all good reason and logic this should be the reverse.

It is equally mystifying to learn that several states make no distinction between reserve and non-reserve banks while some consider savings and time deposits on the same footing as demand deposits.

As a matter of straight, keen cut business, I ask, in all fairness, is it necessary for a banker to keep the same ratio of reserve for his demand deposits that he does for his time and savings deposits?

Is it a banking necessity that his reserve on his time and savings deposits be as liquid as the reserve on his demand deposits? I think you will agree with me that they should not have the same liquidity and that reserve requirements of demand deposits should be larger and more liquid, and that the reserve on time and savings be less liquid.

Is it fair to the non-reserve state banker that he be forced to carry the same reserves as his reserve brother banker is forced to carry? The reserve banker must, of necessity, carry a larger reserve to meet the requirements of his brother bankers. Then, why penalize the non-reserve banker? Many states have absolutely overlooked this proposition. It is a matter worthy of consideration to all non-reserve bankers who find themselves in this position.

Within the Law

IT is a generally admitted fact that in the interests of good banking we must have two strong and healthy systems. Still there is nothing fair or just in 68 per cent of the states requiring a reserve from their reserve state banks of from 15 per cent to 25 per cent on demand deposits and expect them to compete with nationals which with the exception of a mere handful are forced to keep but 3 per cent of their demand deposits with the Federal Reserve banks plus cash to carry on their business. The spread is too great. Of course, the nationals have the Federal Reserve System behind them, but even then a bank should not be run on a background of its ability to borrow. It places a state banker on a dangerously competitive basis to say nothing of the embarrassing position of running a safe bank and trying to make a dividend and stay within the law.

In states where high reserves are demanded a dangerous line of thought has arisen, to the effect that reserves are made high so that in time of stress or seasonal demands a banker can drop below the high requirements and still be nominally safe. If the legislature had any such thought in mind it would have written that particular idea into the law so that "all that run might read," so to speak. It did not, and the law says what the reserve should be and provides penalties where it is not obeyed. Unfortunately, as a rule, these penalties are not demanded or exacted until the bank is beyond redemption. Then the state which has the supervision of the bank, and is responsible for the unfair competition, comes in and directly or indirectly causes the banker, his relatives and possibly his friends to make good.

(Continued on page 411)

Installation of Service Charges on Unprofitable Checking Accounts

By PAUL P. BROWN

Secretary, North Carolina Bankers Association

TIME makes rapid changes in the opinions of mankind. Four or five years ago we were trying to find out what was meant by a service charge, and most of us felt that it was something that might be good for the other fellow's bank, but not for ours. Today it is in use in probably every state in the Union, and the inquiry now is regarding the best method for installing it.

Before the service charge on unprofitable checking accounts can be successfully placed in operation in any community, the bankers themselves must first be sold on the idea. A classification of checking accounts should be made, and this will reveal in nearly every instance that from one-half to two-thirds of the accounts carry less than 5 per cent of the total deposits, but issue 40 per cent or more of the checks. When the banker realizes that this is true in his own institution, and sees the enormous loss these accounts are causing, it is easy to make him realize that a charge at least sufficient to cover the expense is correct and just.

Tell Him the Cost

WHEN the banker himself is convinced, he must then present his case to his customers. There is an almost universal belief in the minds of the people that in some strange and unknown way a bank always makes a profit on the customer's account, regardless of its size or activity. We have built up this feeling of mystery regarding bank transactions which we must now help to tear down. To do this we must use the proper publicity. If the charge has been adopted by clearinghouse action, each piece of publicity should indicate this fact. If there is no clearinghouse, then the names of all of the banks should be used.

Letters to the customers should be carefully worded, explaining conditions so that the small customer may know he is not being singled out, but that there are hundreds who are also causing losses to the bank. Show him how many accounts there are in the banks of the town, how many are below $100, and that, as a rule, it costs as much to handle small ones as larger ones. Tell him of the increased costs and reduced earnings of banks and the consequent necessity for the charge. Stress especially that the new policy is not for the purpose of discouraging the small depositor, but that it is the desire of the bank that no account be closed. Show him how he can escape the charge through an increased balance or fewer checks. Dwell on the convenience and safety of a bank account and the importance of a banking connection, and invite him to call on the officers for a more detailed explanation, if desired. It will be found that the majority of the bank's customers will not only see your position but will uphold it to their friends as well.

No Iron Clad Rules

THE campaign of education should not last over two or three months, and should be conducted almost entirely between the bank and its customers. Newspaper advertising of the service charge has, in my experience, proved unsatisfactory and, in many instances, detrimental. Those who have no dealings with banks know nothing of ordinary bank transactions, but feel that they have the ability to cuss and discuss the service charge on the streets with everyone that will listen. And newspaper advertising of the charge gives them both the material and the opportunity.

Finally, select the plan best suited for your locality, and make few, if any, exceptions. There are no ironclad rules for the operation of the service charge. In many larger communities $1 per month with a minimum average balance of $100 or more is ideal; in others fifty cents and $50, while in some small communities twenty-five cents and $25 may be best. Find the right amounts for your community and use them, remembering, however, that more communities make the mistake of having the charge too small than too great.

Easy to Install

MAKE the charge on the average monthly balance rather than on the lowest amount at any time during the month. It is not fair to penalize a man whose account drops below the minimum for one or two days when his average for the month exceeds the required balance. Enter the charge during the last week of the month so that the customer may make the proper entry upon receipt of his statement. Either allow no free checks or not over four before the charge becomes effective, then have few, if any, exceptions. Make each account stand on its own bottom regardless of the balances carried in some related account. Do not even except your own employees if you expect them to explain matters satisfactorily to your customers. Raise their salaries by the amount of the charge, if necessary, but charge them if they do not keep the required balance.

A profitable account is one that pays its own way and earns a surplus for dividends and to make the bank more secure. An unprofitable account is not only an expense to the bank, but earns nothing for its stockholders and thus helps to weaken it. The service charge on unprofitable accounts increases deposits, decreases work and expense in stationery and supplies, and gives the bank a revenue. It has even been known to make the difference between a dividend and an assessment.

The charge is easy to install, and its operation always produces satisfactory results. Does your bank feel that it wants longer to deprive its stockholders of money that rightfully belongs to them, or will it continue to give it to the very customers who cause the loss? The decision must be yours.

Placing the Farmer on the Payroll

By S. J. HIGH
President, Peoples Bank and Trust Company, Tupelo, Mississippi

Farmer Needs Something Which Will Give Him Regular Income. System of Mortgaging Future Prospects Must Be Replaced by Steady Earnings. Bankers Considered Unsold on Idea of Safe and Sane Farming Which Means Abandonment of One-Crop Habit.

ONE of our country's greatest needs at the present time is profitable agriculture.

The past ten years have seen many changes in the industrial and economic life of our people and practically all of the industries have adjusted themselves to these changes, except agriculture. Most of our farmers are still farming as their grandfathers did, and have not kept step with the changes going on around them.

I am as much interested as anyone in increasing the number of industries in our various towns and cities, and am also an advocate of the industries being carried to the rural regions, which can be done now on account of the wonderful development in electric power and transmission. I believe increased and scattered industrial growth and activity would be very helpful to our agricultural prosperity, but while we are watchfully waiting for increased industrial growth and activity let us put increased effort in and give careful consideration to promoting plans that will insure to us more profitable agriculture. While we are waiting for the industrial payroll, let us try to get the farmer on the monthly payroll.

"Follow the Cow"

DAIRYING, as an agricultural stabilizer, is here offered as the method of farming which will put the farmer on the payroll and do away with the needs of long credit from the banks to finance operations from one harvest to the next. But bankers and the business interests of the communities must get together with the farmers to revolutionize the old ideas of safe farming by study of the needs of each individual locality. Prosperity follows the cow, says Mr. High, and live stock yields a steady cash return.

On Long Credit

PAYROLLS are greatly desired by all communities and in all agricultural sections wherever business is dull you will immediately hear your merchants and business men say "We need industries, something that will give us monthly and weekly payrolls." The old style farmer buys on long credits and long profits, in contrast with modern forms of credits and cash buying.

Mass production reduces costs for the manufacturers; volume buying secures the price for the wholesaler and chain stores and cash in hand gets the price for the consumer. If the farmer has no weekly or monthly cash he buys on long credit, which of necessity carries a long profit. What puts the farmer in this position? "A one-crop system." Our agricultural experts are fully agreed on two fundamentals—First: That a one-crop system is unsafe, be it cotton, corn, wheat or other crops. Second: There is no permanently successful agriculture except in connection with live stock.

The farmer has seen his expenses increase year by year on account of giving to his family the luxuries and comforts that others have, and he has staked his whole future on what is called the money crop. He mortgages his land, his crop and his live stock for farm and family expenses not knowing what the harvest or price will be. Such farming is hazardous and harassing for the farmer, and unsafe from a credit standpoint for the banker and merchant. The farmer needs something that will give him a weekly or monthly income, something that will provide cash to help pay expenses in the making of the crop, something which will prevent him from mortgaging all he has and his future prospects, gambling on the crop and price at harvest time. In Texas they have an expression "A one-crop farm is a gamble."

Large crops are not the solution for the farmer's problem, because large crops usually lower the price. Diversified crops and live stock are his need. As an illustration—several years ago when the corn farmer of the West sent out the S. O. S. call and his situation was looked into, it was found in many instances that the farmer with all corn saw that the price was not sufficient to pay his debts for making his crop, while his neighbor across the road with a large bunch of hogs to fatten for market was glad to buy the cheap corn. What is the solution for this problem? It is easy to see. Hogs on more farms.

A Safe Plan

ONE of the greatest needs of profitable farming is farm efficiency. The time has come when the farmer who gets a profit from his farming operation is the one who is efficient, eliminates waste, and grows more crops on less acres. Demonstrations have been made in various sections of the country showing that the cost of production of various crops has been materially reduced by seed testing, fertilization and careful cultivation. As it is with industries, so it will be with farming in the future—efficiency and low cost of production. The farmer can get his low cost of production by following a safe and sane plan of farming. In most, if not practically all sections of the United States, the following will be a safe plan:

- Pigs, poultry and dairy cows on every farm;
- Raising food and feed;
- Selling milk or cream, chickens and eggs;
- And raising more and better (cash) crops on less acres.

The above plan will bring prosperity to any section. The great need of the farmer today is a supplemental crop or produce that will bring him a monthly income. In most sections this can be accomplished through the pig, chicken and cow. They utilize the rough feeds grown on the farm and eliminate having to prepare and grade them for market.

Dairying is an agricultural stabilizer and nearly all farmers are accessible to a condensery, cheese factory or creamery. The dairy cow is a factory on the farm, converting raw material into finished product, or rather marketable product. When the farmer markets his grain and hay through the cow he is not troubled with grades, rejections, and unmarketable products, but has a market every day in the year at a price where there is less fluctuation in price than almost any agricultural product. Some say: "Well, if every farm has cows and chickens we will flood the mar-

(*Continued on page* 409)

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The National Bank Division

Comptroller Cautions National Banks on Investment Policies. Credit Department Considered Capable of Producing Business for Banks as Well as Protecting Loans. Taxation by States Discussed. Continuation of Note Circulation Privilege Asked.

CALLED to order on Wednesday afternoon, Oct. 3, by President E. A. Onthank, president of the Safety Fund National Bank of Fitchburg, Mass., the National Bank Division had as the principal speaker at its annual meeting the Comptroller of the Currency, J. W. McIntosh.

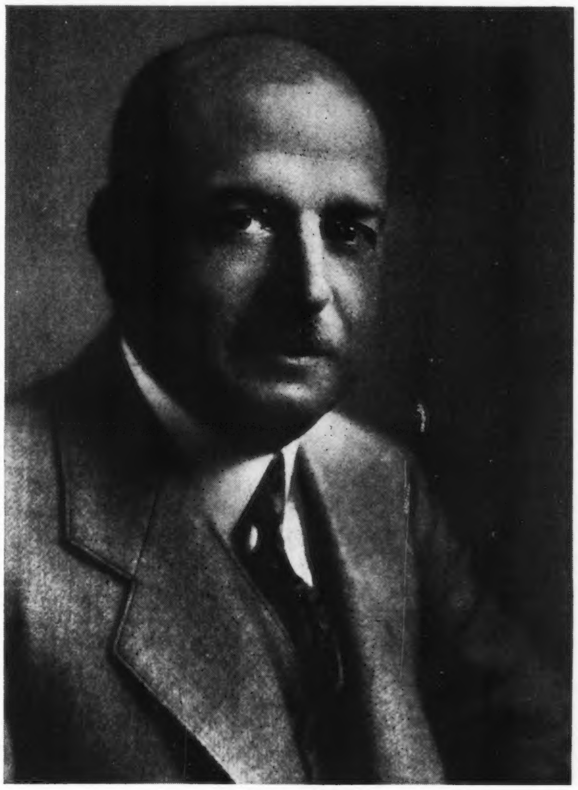
Mr. McIntosh brought up directly to the national banks of the country the need for care in their investments in securities and outlined a number of principles to be followed to insure safety as well as profits to the banks and their customers.

Annual Election

E. H. SENSENICH, president of the West Coast National Bank of Portland, Ore., was elected president of the Division and H. J. Haas, vice-president of the First National Bank of Philadelphia was elected vice-president.

Members of the executive committee for a term of three years were named as follows:

Third Federal Reserve District: Walter W. Wilson, president First National Bank, Milton, Pa.; Fourth Federal Reserve District: Frank L. Stein, president Ohio National Bank, Columbus, Ohio; Sixth Federal Reserve District: Robert Strickland, vice-president, Fourth National Bank, Atlanta, Ga.; and Tenth Federal Reserve District: J. R. Cain, Jr., vice-president, Peters National Bank, Omaha, Neb.



E. H. Sensenich
President West Coast National Bank, Portland, Oregon. Incoming President, National Bank Division.

Addresses

STATE taxation of national banks was discussed by Philip Nichols, tax counsel of the Massachusetts National Bank Association, and Alexander Wall, secretary and treasurer of the Robert Morris Associates, spoke on the productive bank credit department, outlining the value of the credit department in building up new bank business. (Their addresses appear elsewhere.)

The Division heard the annual address of its president, Mr. Onthank (printed elsewhere) and an impromptu address by Craig B. Hazlewood, incoming president of the American Bankers Association, and vice-president of the Union Trust Company of Chicago. Mr. Hazlewood said in part:

"I had no idea in sitting up there in the balcony of evading any proper assignment, or of indicating to you that I was not interested in your proceedings. On the contrary, gentlemen, I came here to listen all the way through this program. I heard the good sense of your president, the fine sermon on good banking by the comptroller, the very orderly presentation on the tax matter by the Massachusetts attorney, and now this very excellent address of my friend Alex Wall, on the proper conduct of a credit department.

"I am more or less familiar with Alex's work in the Robert Morris Associates. I am more or less familiar with their general activities. That is the kind of valuable stuff that we want to have. That is the kind of material that does us good, and that is why it is worth while to come to American Bankers Association conventions.

Very Worth While

"THEN there is the material that the Comptroller had in his paper. There was some wonderful material in there. Some of his advice to banks on the proper conduct of their institutions was very practical and very worth while."

Bank Circulation

AMONG the resolutions adopted by the meeting was one urging continuation of national bank circulation and one expressing the Division's approval of the suggestion made by President Preston looking toward the formation of an international banking association. The resolution on national bank circulation follows:

"Uncertainty over the future of national bank notes grows with the approach of the year 1930 when the U. S. 2 per cent Consols, supporting nearly nine-tenths of all national bank circulation will become callable. Circulation has been a prerogative of national banks always; it served our country well in times of great need. It is a financial advantage to the government. It is a desirable feature of national banking. Practically 85 per cent of all national banks issue circulation, and though of small monetary value to banks, it is an advertising feature of no little moment.

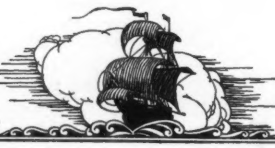
"National banks in great numbers are urging that circulation be continued, and therefore it is the sense of this annual convention of the National Bank Division of the American Bankers Association that the interests of the banks and the government alike decree that the Consols shall not be redeemed when they become callable."

The new officers of the Division were installed by Mr. Onthank, whereupon President Sensenich introduced the members of the Executive Committee.

National Bank Aims

By E. A. ONTHANK
President, Safety Fund National Bank, Fitchburg, Mass.

Record Breaking Resources Bring Enormous Responsibilities. Safe Employment of Vast Sums of National System Challenges Best Efforts. Liquid Reserves Essential. Trust Field Gives New Activity. Taxation and Currency Questions Now Critical.



Safety First

THE President of the National Bank Division shows the way to the successful and profitable conduct of banking in a system which is piling up resources in staggering amounts by pointing to safety as the common goal. In this light he stresses the fact that banking is essentially a private enterprise rendering a distinctly public service and must be made to yield remuneration to those engaged in it.

THE national banking system now shows resources larger than at any other period in its long and notable history. On June 30 of this year, for the first time, the total exceeded $28,500,000,000. In the abstract this is a staggering sum, but when one considers the breadth of its distribution and the very large percentage of our nation's trade and commerce which is financed thereby the total does not seem unduly large. However, it bespeaks a mighty organization and implies a mighty force, and in its proper direction there is a deep and lasting interest.

The national banking system embraces 7,691 banks with capital, surplus and undivided profits of $3,570,988,000, and deposits of more than $22,500,000,000. How to employ these vast sums profitably presents many complex problems, and how to employ these sums safely challenges our very best thoughts and efforts. The principles underlying sound banking have not changed. They are just as simple and just as unyielding today as they were a generation ago. However, the practices builded upon them have followed the course of modern business and have expanded and have been fashioned to serve present-day needs. This may be said of all classes of banks, though our concern is chiefly with those chartered under the national laws. They mark the limitations set upon our institutions and they are the standard by which our operations are measured.

Common Goal of Safety

BANK management and bank supervision, though exercised by wholly different and unrelated groups, are striving for a common goal—safety. No business can long prosper if it is not safe, and this statement finds abundant support in the history of banking. Not unnaturally now and then the acute competition which exists in banking leads to excesses, and when the rules of safety are relaxed disaster is courted.

Banking is essentially a private enterprise rendering a distinctly public service and must be made to yield remuneration to those engaged in it. Patrons recognize the value of good banking service and are willing to pay reasonably for it. The broadened field in which banks now operate and the specialized attention which they give to each feature of their work make available a better and more helpful service. In the light of this, and each banker is able to judge accurately the character of benefit he gives his community, too much emphasis cannot be laid upon the danger lurking in the practice of bidding too high for public favor. This tendency manifests itself in many ways, but perhaps it is most pronounced in offers made for deposits in general and the carrying of individual checking accounts at a loss. Obviously a loss at one point must be offset by larger earnings at some other, and it is to attain the latter that doubtful commitments are sometimes made deliberately. Liberalization of interest rates, the making of speculative loans and the purchase of speculative investments in order to produce adequate earnings cannot be encouraged. It is only necessary to remind ourselves that the banks which do not enter into this competition, but conduct their business along conservative lines, are the banks which, as a rule, show steady progress over a period of years.

Bold Efforts

REPORTS from some of the middle-western states advise that the commissioners of banking have directed the banks under their supervision to reduce the interest paid on deposits where it appeared the rates were unduly high. It may be fairly assumed that such steps were not taken without first definitely establishing their necessity; that such orders were issued only after it had been determined that a continuation of higher rates might endanger the structure of some of the banks. In the light of recent banking history those acts may be characterized as bold efforts to avert further disaster, and upon the theory that they will make for greater safety in banking it is to be hoped the movement will spread and be adopted by all classes of banks in a like position.

Despite the almost continuous warnings that loans and investments should be studiously diversified investigations show that there is an alarming lack of caution exercised. Banks are reluctant to decline loans to depositors or prospective customers when funds can be made available. Likewise, sometimes they find it difficult to refrain from acquiring securities made attractive principally by their rates. The temptation is not always put aside even though the margin of safety is threatened. Such practices cannot be condoned, and should be rejected. Obviously the danger is not alone in the volume of loans and investments, but also in their character; in the possible lack of a proper proportion of eligible paper and securities to constitute a satisfactory secondary reserve.

A Lasting Reminder

THIS is a very serious situation and not at all uncommon. Each banker knows what a sound secondary reserve should consist of and he knows also its value. Notwithstanding this a surprisingly large number seem to give it little or no consideration. Banks which place too great a proportion of their funds in non-rediscountable loans obviously find they are not in a position to render a full measure of service in a time of stress. The same predicament is faced by the bank which buys securities if it fails to exercise the discretion and good judgment which banking history has taught.

(Continued on page 410)

Country Bank Investment Policies

By J. W. McINTOSH
Comptroller of the Currency

Comptroller Would Correct Country Banks Investment Methods
Cautions Against High Pressure Selling of Low Grade Issues.
Five Factors Country Banker Should Bear in Mind in Buying.
Urges Use of the Facilities of Metropolitan Correspondents.

THE decline in the bond market has probably done more than anything else to focus the attention of the banker on his security list. The item "appreciation" cannot now, in many cases, be pointed to with pride and gleefully counted on to take care of some loss set up by the bank examiner—it has evaporated and in its place stands "depreciation."

Investment lists of all banks feel the effect of a decline in the investment security market, but how much more severe is its effect on the bank which has not invested wisely, the bank which has not diversified, and which has bought from the standpoint of high yield instead of safety and stability, and this bank is more often found among the country banks than the city banks. The reasons for this are obvious and several in number.

The average metropolitan bank is in closer touch with the investment security market and with the high grade investment houses. It has on its staff experts in the investment field and becomes a specialist in this line. The country bank, in many cases, cannot equip itself as effectively. It generally cannot stand the overhead and it is difficult for the country banker to find the time to study the matter, for his time is fully occupied in attending to local credits and operation of his bank.

What Happens?

THE result is that the bank approaches the task of buying and selling investment securities with little or no experience or training in this field and with a judgment in such which is naturally unseasoned and immature. What happens? While the directors are giving consideration to a loan of $500, the cashier of the bank swallows whole the talk of a high pressure salesman of a low class securities house and buys $50,000 of high yield, unliquid, low-grade securities. I do not mean to convey the impression that this is typical of a majority of country banks, but it well illustrates several cases which have come to my attention. It is to the correction of such a situation I wish particularly to address myself.

Since the passage of the McFadden Act, national banks purchase investment securities for three main reasons:

For secondary reserve,
For permanent investment, and
For sale to their clients.

It is healthy for the bank to engage in these purchases when wisely handled, for not only should the bank have the reserve which is created thereby but the bank's client has a right to and demands these services, and in addition it offers a new source of income beyond interest and discount.

Cut to the Quick

IN approaching the problem which confronts him, the country banker should bear in mind:

First: That a personal call from a securities' salesman does not insure the securities purchased from him. In this connection the increased competition among underwriters of securities for the high grade issues with low rates of interest has cut to the quick the margin of commission or profit to be had on such issues. The outcome has been that the large city banks and sound investment houses cannot afford to spend large sums in selling such securities throughout the country. It is impossible for them to send their salesmen with considerable frequency to call upon the country banker and are often compelled to make their offering by mail—a method which is admittedly less effective than a personal call, which is obviously much more expensive.

Second: That unsound securities no matter how high the yield which they give, are far more likely to produce losses than profits. Most country banks have suffered loss through unwise loans and many have been brought to liquidation for this reason. In the eagerness to secure yield, the safety of principal is forgotten or neglected and the results have been disastrous. The same kind of thing has begun again, this time with securities as the asset which is causing the trouble. Far too many bankers when they buy bonds are buying yield and are paying little attention to safety or liquidity, and a few losses of the principal of securities which default in the course of a year will not only wipe out the extra interest but are likely to turn net income into a loss. This has occurred in a number of cases which have come to my attention.

In Times of Stress

THIRD: That unsound securities do not add to the liquidity of a bank's assets but on the other hand detract from it. Many country banks have found themselves in difficulty because of the frozen condition of their assets, even when the underlying securities appear to be ample. The same thing is happening in the case of securities. Poor investment securities, even though they are not in default, lack liquidity at all times. Thus in times of stress when a bank wants to rely upon investment securities for liquidity, it will find that poor securities fail them. From this standpoint they can only be sold—if they can be sold at all—at a heavy loss.

Fourth: Diversification. Diversification which will provide the desired safety, liquidity and high yield. Diversification according to types of bonds, governmental, state and municipal, public utility, railroad equipment, trust, industrial corporation and foreign government. Diversification in respect to management, especially in so far as public utility and railroad securities are concerned. Geographic diversification for all types of bonds and diversification in respect to maturity.

Cyclic Changes

FIFTH: The purchase of investment securities adapted to its own particular needs and requirements. What the needs of a bank in purchasing investment securities are must necessarily rest with the bank. Some banks have large sums available for investment in bonds, others have hardly enough funds available to purchase securities purely for a secondary reserve account. The division of deposits between demand and time deposits will determine in a large measure the situation of a bank in this respect, as well as serve as a basis for the determination of the size of the secondary reserve. The fluctuation in deposits and local loans, the number of large accounts and the amount of the variation in their deposits, the cyclic changes in the business of the community will all have their influences over the size and character of securities purchased. Obviously yield must be sacrificed to some extent to obtain both safety and liquidity. Liquidity cannot be neglected but it will be found that most, if not all, bonds of sufficiently high quality to be included in an investment account of a bank will also have adequate liquidity.

(*Continued on page* 411)

State Taxation of National Banks

By PHILIP NICHOLS
Tax Counsel, Massachusetts National Bank Association

Excise Tax Under Present Law Suggested for National Banks. Net Income from All Sources Would be Measure of Such a Tax. Similar System in Massachusetts Said to Have Given General Satisfaction and to Be Just and Equitable Without Hardship.

THERE can be no doubt that the next session of Congress will witness a renewal of the attempt of the taxing authorities of some of the states to have the Federal law, under which the taxation of national banks by the cities and towns in which they are located is authorized, still further amended and the restrictions which Congress has imposed upon such taxation still further relaxed. Those who attended the hearings at the last session realize the seriousness of the situation, the earnestness with which the taxing authorities of many of the states are throwing themselves into the contest, and the real belief in a grievance calling for redress by which they are inspired.

But before yielding to this demand for an amendment of the statute, it behooves the representatives of the national banks to consider well what these advocates of change propose and what the effect upon the national banks would be, to weigh the justice of their contentions, and, above all, to search the provisions of the existing law, to see if it is true that it does not permit fair and reasonable taxation of national banks.

The proposition with which the banks are faced is simple. It is first demanded that the national banks have no other protection from state taxation than a provision that their shares shall be taxed at no higher rate than the shares of banks chartered or existing under the laws of the states, and then, as a final concession, another limitation is offered, namely, that the shares of a national bank shall not be taxed at a higher rate than real estate in the same taxing district used for mercantile or like business purposes.

A Lesser Evil

THIS is an argument against any change in the law governing taxation of national banks by the states on the ground that the existing Act affords ample means for the imposition of just and adequate taxes. The excise tax is described as fulfilling all requirements since it would impose no higher rate upon national banks than upon corporations in the state and the law does not require the taxation of both in the same manner—a theory to be reckoned with at the next Congress.

Burden on Bank Shares

LET us see what the effect of such amendment would be. Taking for an example a case which is neither imaginary nor abnormal, the par value of the shares of a national bank is $100; the surplus and undivided profits are such that the book value is $350 per share; the market value is $500 per share; the tax rate of the city in which the bank is located is $35 per thousand (35 mills on the dollar). Under the proposed amendment each share of this bank would be taxed $17.50 per year, or well over 50 per cent of its net income.

If it be said that this computation presupposes that the shares would be assessed at their full market value, and that real estate is rarely assessed at 100 per cent of its real value, and that the proposed amendment provides that national bank shares shall not be taxed higher than real estate, it may be pointed out that in most states the law requires the assessment of real estate at its full value, and that the assessors could be trusted to follow the law in the case of bank shares even if they were more lenient to the real estate of private owners; yet in such a case the difficulty of proving intentional discrimination would be almost insuperable. In the states in which the law provides for assessment of real estate at less than actual value, the bank shares would, it is true, enjoy the same proportion of valuation as real estate; but there would be no real benefit, because when the valuation is low the rate is correspondingly high.

An Economic Fallacy

THE national banks must therefore, if the proposed amendments are enacted, be prepared to meet a tax which will make expansion of surplus impossible and which will absorb in time of peace a proportion of their income which hitherto it has been deemed possible to sequester for public use only in the stress of war. If, however, this proposed tax is just, if it is based upon sound economic principles, it may be a vain effort to oppose it. Let us therefore consider the justice and propriety of taxing bank shares at the same rate as real estate.

No economic fallacy is now more completely discredited than the theory which once generally prevailed that all property, tangible and intangible, ought to be taxed at the same rate. The attempt to tax intangible property at the same rate as tangible property has broken down, not so much because of the difficulty in locating and assessing intangible property—the Federal income tax authorities seem to be able to reach income without much regard to the tangibility of the source—but because such a tax on intangible property is inherently unjust.

Intangible property consists of rights in or claims against tangible property, usually evidenced by paper writings to which in some cases commercial custom has for purposes of convenience given some of the attributes of tangible property. Ordinarily the ownership of property or of an interest therein cannot be made the subject of a tax additional to the tax on the property itself, whether such ownership is evidenced by a paper writing or not, and whether the ownership is of the entire property or of a partial interest therein. A man cannot be taxed on his real estate in the place where it is located and on his deed to the same real estate in the place where he lives. If A and B own a horse jointly, the horse may be taxed to A and B jointly, or A and B may each be taxed for a half interest in the horse; but the horse cannot constitutionally be taxed in both ways at the same time.

Double Taxation

WHEN, however, intangible property assumes certain forms, it is constitutionally possible to tax both the intangible property and the tangible property in which it constitutes an interest. Thus if A and B form a corporation, the property of the corporation may be taxed to the corporation and the interest of A and B in such property as

(*Continued on page* 377)

New Yardsticks for Credit

By ALEXANDER WALL
Secretary-Treasurer, Robert Morris Associates

How to Use a Bank Credit Department to the Best Advantage. Modern Methods for Analyzing Financial Statements Clearly. Knowledge of the Usual in an Industry Necessary in Testing Credit Position of Borrowers. Criticism Turned Into Advice.

TOO frequently bankers fail to use the credit department as a productive unit of their organization because of the inceptive idea that it is purely a protective department. In the early days of bank credit departments their managers, clerks and even the officers connected with them were, in a measure, classed as a sort of financial house detective. Examinations of the data submitted by borrowers, at first unwillingly and sparingly given, were supposed to be dissected and nearly psychoanalyzed for the purpose almost of preventing borrowing, except on good collateral. There was little or no interbank credit cooperation. Each separate department was supposed to be the first to discover any weakness of any borrower and to be ever ready to recover its bank's funds, by almost any tactics, with no consideration for other banks and most certainly with no consideration for the borrower.

The crisis of 1907 pointed out the unsoundness of this attitude and where the credit department has become a productive department, the appreciation of the necessity for change was probably born as a result of this upset period. Happily today many banks are rating their credit departments as productive and are striving to develop and increase this phase of their activity.

Obligation to Serve

THE relationships of the credit department are several. It is related to the loaning officers by its obligation to serve them. It should be related to the loaning officers by their desire, nay even obligation, to cooperate with it. It is related to the borrower by its obligation to analyze his condition carefully so as to protect the bank. It is last and, for the purposes of this discussion, most importantly related to the borrower by its obligation to use its analysis of his affairs so as to advise him of unappreciated failure to conduct his business on sound lines. Two of these relations are almost entirely understood by the bank executive, one is too frequently smothered and a full appreciation of the fourth is just beginning to blossom into an acknowledgment of its importance. Each of these is worthy of a short consideration and one is the whole kernel of this discussion.

Productive Credit

THERE is here outlined the means by which banks may produce sound business by the intelligent application of their massed knowledge; prosperous customers by sound and fearless advice; and contented citizens because of their abilities to build up struggling, younger companies by living their problems with them. In this work a leading rôle is demanded for the credit department, which delivers its assistance based on digested facts.

It would be difficult to find a loaning officer today who, having accepted the existence of his credit department, did not acknowledge the obligation of that department to serve him. He turns to it for records of all data concerning any loan. The facts must be properly marshalled, tabulated, digested and arranged so that the loaning officer can make his decisions with the least effort and most expeditiously. The department acknowledges this obligation and strives to meet the requirements.

Protective Knowledge

THIS brings us to the second relation between department and loaning officer. There is too often either a selfish or ignorant conception of the ownership of knowledge. When a customer consults an officer, with the view of making a credit connection, he gives to such officer many important facts concerning his affairs. This is knowledge about the safety of the loan and in all good faith is the property of the bank and not of any individual loaning officer. When credit is advanced it represents not the funds of an individual, but of the corporation. The protective knowledge concerning the conditions of the borrower should unquestionably be the property of the lender of funds, the corporation, not the individual.

There may be isolated instances in which a borrower gives information to a loaning officer on a strictly personal basis. These cases, however, are rare and are getting rarer as borrowers more fully appreciate that bankers come and go but the banks continue. When such a case does honestly exist, then the loaning officer should unquestionably observe the sanctity of the confidence, but he should still protect the loaning safety of his bank by filing a memorandum with the credit department that confidential information in his own possession has a bearing on the loan and that he should be consulted in regard to renewals or increases in loans.

Mental File Cases

THE credit department of any bank should be the clearing house and record book for all information bearing on loans. In many instances data given to different officers at different times will be found to have contradictory indicative value. Such contradictions should be discovered by the credit department. But this can only be done when loaning officers communicate to the department their complete conception of what each borrower has told them in any interview so that stories coming through several sources can be compared.

There is a further reason why officers should send memoranda of conversational data to the department. Memory plays odd tricks on us. Certain facts related by one borrower and perfectly clear at the time can easily become confused with facts related by another borrower. Even without such distortions, due to conflicting reports, vital impressions have a way of losing vitality by being simply remembered.

From still another angle the filing of verbal data in written form by loaning officers is a kind of insurance. Such mental file cases have a way of dying or going on a fishing trip, in which events the bank is altogether without the data, unless set down in writing and filed.

Current Ratio

TO be productive the department must have the tools with which to produce. These include all the facts which at any time have come to the attention of any officer concerning any loan. If any officer, in order to increase his personal effectiveness, withholds data from his organization which rightly belongs to it, a condition exists that is unsound and destructive to departmental or loaning efficiency.

The third relationship of the department is the descendant of its origin, namely, the critical analysis of the customer's condition, so as to emphasize weakness in its credit structure and to the sole end of protecting the bank. In this connection I wish to discuss only one matter, the well-known current ratio.

Not very long after 1900 analysts of statements began to use the relationship of current assets to current liabilities as a test for liquidity and credit strength. So general has the acceptance of this ratio, as a credit test, become that I dare say 95 per cent of all credit records, showing statement analyses, carry some written notation as to the figure for this ratio from year to year. I do not deprecate the use of the current ratio because its use is an acknowledgment that the reflection of strength or weakness is to be seen in proportion rather than in a comparison of bulk dollar figures. Current assets are sufficient and liquidity is probable, not necessarily when the current assets are $1,000,000 or $10,000,000, but when they are sufficiently large in relation to the current liabilities.

Among the Elect

THERE is an analytical danger in the use of the current ratio, however, that for many years was a growing danger. Complacent mouthing of the phrase evolved an acceptance of two dollars of current assets for each dollar of current liability, or 2 for 1, as a sort of haven of refuge. Such companies as could show such a proportion or better were considered among the elect, while those showing below it were held "without the pale." The only authority for this being considered the safe proportion is tacit acceptance, not carefully prepared statistical knowledge. Even if "two for one" might be proper for paper mills, is that any indication that it is at the same time correct for a department store?

My examinations of statements indicate that this is not so, but that the different lines of business with their differing economic strains actually have different usual or common current ratios. An examination of 2751 separate statements in thirty-nine different industries, as of about Jan. 1, 1928, leads me to believe quite definitely that far different current ratios than "two for one" should be expected or considered as usual in the several industries.

In only one of these industries does it seem usual for the current ratio, on last Jan. 1, to have been below two for one. In all but four of the thirty-nine it was more common to find it above two and one-quarter to one. In twenty-seven industries it was above two and one-half to one, while for about half of the industries it was nearly three for one or better.

Criticism as Advice

WITH this in mind I wonder what safety lies in the analysis of the borrower's statement on the basis that a current ratio of two for one is good. In the protective relationship between bank and customer it seems more proper that the department measure a company by the knowledge of what is usual for that type of company than to rely on some preconception.

There remains for consideration the last and most important relationship of the credit department. It is also in this relationship that the department reaches or fails to attain a real and profitable productivity. The relationship is that of the department to the customer in an advisory capacity. The switch from the critical detective type of department to the advisory type is what makes it turn from an insurance charge for protection to an earning department. Very often criticism can be made to appear as advice if properly worded. But to get this facility of verbiage it is necessary to have facts on which to base statements rather than preconceptions. For a moment, then, I would discuss phraseology and fact.

How often has each one of us told a borrower that he was "topheavy with debt," as indicated by his statement figures? Just what is meant by this phrase and how can the borrower know whether he is improving from year to year or getting worse? As a phrase it is a criticism. If reducible to a fact it would be suggestive and recordable. If compared to some usual condition for such a borrower it would become advice.

Testing for Debt

THE number of dollars constituting a debt do not express its analytical credit size, nor should they stigmatize any borrower simply because of their bulk. There is a more reasonable way to express the debt position. In any business the assets are offset or carried on the balance sheet by two sets of capital. Net worth is owners' capital. Debts are creditors' capital. For each dollar of owners' capital it is reasonable for any company to be using a fair number of cents of creditors' capital, represented by debts for goods or money advanced. As long as the net worth is in reasonable relationship to the debts, so as to give a stable support to borrowing, then the risk is not topheavy with debt, quite irrespective of the dollar size of the debt.

In the current ratio test the current assets are usually divided by the current liabilities to develop the figure to be used in recording the proportion. In the debt position test I have found it feasible to divide the net worth by the total debt to secure a figure to record the movement of this factor. Quite a number of analysts divide the debt by the net worth in order to see what the debt percentage of net worth may be. The objection to this lies in the fact that improvement in credit condition, if found in both current ratio and debt ratio, would register as a rising current ratio and a falling debt ratio. In other words, the trends or tendencies of these two indicators being in the same direction in their recorded figures would be offsets in real movement. Probably the current ratio should be reversely computed, but, in any event, all recording data should move in the same direction for improvement or decline. On no other basis could they ever be combined and used in index fashion.

In using this proportion, net worth to total debt as a test for debt position, it is just as necessary to know what is usual for an industry as it is in the case of the current ratio, which has already been discussed. The study of statement proportions to discover what was to be expected in different industries for the first of this year's statements, by industries, included an examination of the ratio between net worth and debt. The range by industries was even greater than for the current ratio, starting with a usual ratio of net worth to debt of 135 per cent ($135 of net worth for each $100 of debt), up to a usual ratio of 445 per cent ($445 of net worth for each $100 of debt). These figures are from the same study of 2751 statements as used for the current ratio. Other industries showed varying usuals for the worth to debt ratio in a manner similar to the current ratios, but the industries do not follow the same order in both cases.

"Topheavy with Debt"

WITH these two ranges for two most important proportions before us it seems absolutely obvious that fair criticism and suggestive advice must be based upon accurate knowledge rather than upon an inspirational idea of what these proportions should be. To state to a borrower that he is "topheavy with debt" in the abstract is quite a different matter from showing him that his net worth is only 180 per cent of his debts when it should be 280 per cent to be in line with the position of similar and competing companies. Such a suggestion gives the borrower a mark to attain which he knows has a rating value with a meaning.

Furthermore, the recording of this proportion from year to year creates a debt position record which is quite as accurate and important as the current position record so universally kept. If a borrower, having showed a worth to debt ratio on Jan. 1, 1926, of 250 per cent, showed 225 per cent in 1927 and 195 per cent in 1928, we would have a progressive approach to real topheaviness. Such a borrower's position would be quite different from that of another, in the same line of business, whose statements as of the same dates showed worth to debt ratios of 160, 180 and 195 per cent. Both have the same proportion in 1928, but one has been sliding backward and one improving. One needs encouragement and the other criticism. Here lies the possi-

(*Continued on page* 369)

The Trust Company Division

Record Breaking Trust Company Resources Reported for Year. Increase of Nearly Billion and a Half Dollars Is Disclosed. Encouraging Growth of Community Trusts in Nation Apparent. Division Is Welcomed to Philadelphia for Its Annual Meeting.

THE largest banking resources in the history of trust companies—a record attained during the past year—was reported to the annual meeting of the Trust Company Division, which was called to order Wednesday evening, Oct. 3, by President Walter S. McLucas, Chairman of the Board of the Commerce Trust Co. of Kansas City, Mo.

Expansion of trust company business was made the subject of a special report delivered by H. L. Servoss, Vice-President of the United States Mortgage & Trust Co. of New York, after President McLucas had made his annual address to the division. (The President's address will be found elsewhere.)

Record Resources

"THE high-water mark," Mr. Servoss said, "reached on June 30 this year makes for the 2862 companies reporting total resources of $21,970,000,000, or nearly $1,500,000,000 more than a year ago.

"New York State still leads with over $6,500,000,000, or an increase of $500,000,000 for the twelve months. The other states in the $1,000,000,000 class are Pennsylvania, Illinois, Ohio, New Jersey and California. The companies in these six states have resources aggregating nearly $16,000,000,000, or nearly 73 per cent of the country's total. The largest percentage of gain made by any one state was Wisconsin, which increased from $18,000,000 to $148,000,000. Other states showing gains of over $50,000,000 are Connecticut, Iowa, Missouri and Michigan."

Members of the division were welcomed to Philadelphia with an address by William P. Gest, Chairman of the Board of the Fidelity-Philadelphia Trust Co. H. L. Standeven, Executive Vice-President of the Exchange Trust Co. of Tulsa, Okla., spoke on the responsibilities of trust management; Frank C. Mortimer, Vice-President of the Citizens National Trust & Savings Bank of Los Angeles, discussed the clarifying of trust functions in the public mind, with particular reference to the use of the term "trust" by enterprises in now way concerned with trust company services; and modern tendencies in wills were traced by Gilbert T. Stephenson, Vice-President of the Wachovia Bank & Trust Co. of Raleigh, N. C. (Their addresses are printed elsewhere.)

Arthur V. Morton

Vice-President The Pennsylvania Company for Insurance on Lives and Granting Annuities, Philadelphia. Incoming President, Trust Company Division

New Officers

ARTHUR V. MORTON, Vice-President of the Pennsylvania Co. for Insurance on Lives and Granting Annuities, was elected President of the Trust Company Division. John C. Mechen, Vice-President of First Trust & Savings Bank of Chicago, was made Vice-President of the division, and Gilbert T. Stephenson chairman of the Executive Committee.

Arthur W. Loasby, President of the Equitable Trust Co. of New York, was elected to the Executive Committee for the term expiring in 1929, and for the term expiring in 1931 the following were named: Robert O. Lord, President of the Guardian Trust Co. of Detroit; Robert F. Maddox, Chairman of the Board of the Trust Co. of Georgia, Atlanta; James H. Perkins, President of the Farmers Loan & Trust Co. of New York; Nathan D. Prince, President of the Hartford-Connecticut Trust Co., Hartford, Conn.; and R. M. Sims, Vice-President of the American Trust Co. of San Francisco.

Community Trusts

UPON motion of William G. Littleton, Chairman of the Community Trusts Committee, and Vice-President of the Fidelity-Philadelphia Trust Co., a resolution was adopted declaring it to be the sense of the division that the plan of the community trust should be commended alike to the financial institutions which may be trustees and to the public at large, which is the ultimate and perpetual beneficiary of its services. In offering the motion Mr. Littleton said:

"The operation of community trusts has progressed to a point that now warrants the conclusion that these organizations have made available for the administration of trust funds for charitable purposes a more effective procedure than any heretofore devised.

"Consistent growth of the movement during the past fourteen years has resulted in the establishment of community trusts in upward of fifty cities located in twenty different commonwealths. In 1925 sixteen of these had begun the annual distribution of income; that number had increased to eighteen in 1926, and to twenty in 1927. The income distributed by community trusts had similarly risen from $441,000 in 1925, to $492,000 in 1926, and to $593,000 in 1927. The principal of funds held by community trusts in the United States at present is approximately $14,750,000.

(*Continued on page* 419)

Trust Company Progress

By WALTER S. MCLUCAS
Chairman of Board, Commerce Trust Company, Kansas City, Missouri

Institution of Specialists Replacing Untrained Individual. Estimated that Fiduciary Protection Afforded by Banks and Trust Companies Extends Over Nearly One-Third of Wealth of this Country. Cooperation with Bar and Insurance Companies.

IN this amazing decade of growth, it is cheering to observe that the business of our trust companies is more than keeping pace with the onward sweep of the times. Indeed, there are many indications that trust service is the fastest growing form of financial service now rendered the American people by its banks and trust companies.

The growing intelligence of the American people in their financial affairs, the more widespread diffusion of wealth and changing ideas as to the form in which wealth should be left are tending to make the work of corporate fiduciaries more necessary and valuable to an ever-enlarging group of our citizens. In brief, it is the story of an institution of specialists replacing the trusted but untrained individual; a record of a modern organization responding to a newly created need; a dawning of the consciousness that management can be bequeathed with wealth; and the growing conviction that the future of the family may be more securely safeguarded by making a definite arrangement for an assured income than by leaving a round sum to be invested by inexperienced heirs.

Not a Dollar Lost

WITH the ascendancy of the corporation as the modern instrument of American business, the trust company has come to fill an indispensable rôle as a public servant, seeing that the terms of bond issues are faithfully carried out; protecting the investing public from over-issues of stocks and bonds, making it possible for utilities and industries to raise the capital required for progress and expansion. It has been estimated that the fiduciary protection afforded by banks and trust companies extends over nearly one-third of the national wealth of this country, when the value of property, for which they act as trustee, and the securities, for which they serve as registrar and transfer agent, are included in the total.

"The most exalted human relationship ever created by law" is the term used by Mark Sullivan to describe the sacred nature of the trust imposed by the statutes upon the custodians of property belonging to others. It is a privilege to report that the responsibilities imposed have been discharged most faithfully. Notwithstanding the vast volume of funds handled for others, we have no record of any case during 1928 where the beneficiaries of any trust administered by a trust company have suffered the loss of a dollar through the failure or mismanagement of a trust company or through the malfeasance of any of its officers. Thus another year may be added to the lengthening period of the safety of trust funds. There is every indication that the trust company is more strongly entrenched in public confidence than ever before.

Exalted Service

FAITHFUL discharge of grave responsibilities by trust officers has produced in the public mind a continually growing regard for their services. Experience and steadily increasing efficiency is broadening the field of trust service which is being received by a more general recognition of the facilities afforded as evidenced by the increasing disposition to leave wealth in the form of income rather than round sums. The record of the past year has been unusually satisfactory.

Spectacular Growth

HOW successfully the fiduciary idea is being carried to the American people is indicated by two surveys that were conducted during the year by committees of the Trust Company Division. Responses from more than 1000 banks and trust companies to a questionnaire sent out by our Committee on Publicity revealed that the number of times these institutions had been named as executor or trustee under wills during 1927 was four and one-half times as great as in 1923. In fact, the number of appointments reported for that single year was greater than for the three years of 1923, 1924 and 1925 combined.

More and more the proceeds from life insurance are being brought within the protection of trust agreements. A survey made by our Committee on Insurance Trusts discloses that the amount of insurance deposited under trust agreements during 1927 was eight times as much as for 1923.

While this impressive growth is perhaps the most spectacular phase of the trust business, there are certain definite trends and broad tendencies to be observed.

Greater Uniformity

WILL-MAKING is becoming more general. While the failure of the average American to provide for the distribution of his property upon his death by a will still amounts to a national shortcoming, each year an increasing percentage of people dying with sufficient property to probate are making this provision.

More money is being left in trust. It appears that there is a growing disposition to leave wealth in the form of income rather than round sums.

The charges for trust service are showing greater uniformity. There is a noticeable tendency in various parts of the country for banks and trust companies to adopt fee schedules that provide for a greater standardization. This action, happily, is discouraging the practice of "shopping for trust service." Competition is being based more and more on quality than on price.

The trust department is gaining in prestige. The number of bank officers who devote their full time to trust work is increasing, and it is more widely recognized that a man of special training and experience is needed to serve in this capacity.

States More Liberal

THE list of securities that are legal for trust investments is being broadened. The states are showing a disposition to be more liberal in their statutory limitations on trust investments. New York made important changes during 1928 while the subject is being given intensive study in Pennsylvania and other states. The makers of trusts are giving more ample investment powers to the trustees. In the larger centers

(Continued on page 341)

Trust Company Progress

(*Continued from page 338*)

the practice of including seasoned stocks of the highest grade among the trust investments, where this power is specifically granted by the trust instrument, appears to be making some headway.

There is a noticeable improvement in the relations with the members of the bar. As an understanding of the fundamentally cooperative nature of the relations of the trust company and the lawyer have grown, the members of the legal profession have steadily become more friendly. Less legislation of a drastic nature that would prove onerous to trust companies is being introduced in the state legislatures.

More intensive study is being given to ascertaining the costs of trust service than ever before. While the number of financial institutions that have budgeted their expenses is still limited, there is no subject of more immediate interest to the executives of trust companies and banks today than the scientific determination of costs of performing trust service and of acquiring new business.

Spreading the Trust Idea

PERSONAL solicitation as a means of extending trust service is growing. A few years ago the number of full-time trust solicitors employed by trust companies could be counted on the two hands. Today there are probably four hundred men and women in this work. The results obtained have in most instances been quite satisfactory, although there appears to be a unanimity of opinion that these depend, in the final analysis, on the type of men who are sent out as representatives.

Local organizations of trust men are becoming more numerous. Recognizing the value of a local association for promoting general practices, bringing about a uniformity of fees and spreading a more intimate knowledge of trust work, new associations that promise to be the counterpart of clearinghouse associations in the field of commercial banking have been formed in all parts of the country. However, some of the most important trust centers are still lacking in such organizations.

More emphasis is being placed upon the development of trust business among the institution's present customers. While trust companies and banks are spending more money than ever before in spreading the trust idea through all forms of advertising and publicity, it would appear that there is a tendency to concentrate on those who are depositors or using other services of the bank as the most fruitful source of new business. An increasing proportion of newspaper and direct mail outlays has been used to advertise the life insurance trust, one reason being that it affords a satisfactory indirect approach to other types of trust business.

More nationally known men are naming corporate executors to settle their estates and administer trusts. There has never been a year when so many men of national reputation and notables of recognized financial standing have named trust companies and banks to carry out their wills. This splendid testimonial of the superior services offered, we believe, will do much to bring to public attention the advantages that the corporate executor and trustee have over the individual.

Doubtless there are other broad tendencies that are to be noted, but these are more readily apparent. It is gratifying to note that these are healthy tendencies in the main, and will serve to elevate the standards of trust work and give greater dignity to the fiduciary business.

Reflecting the modern tendency of banks and trust companies to broaden the nature of their service to their customers, the membership of the Trust Company Division shows a substantial increase for the year. We had 3741 active and associate members on Sept. 1 as compared with 3578 on the corresponding date of last year. This gain is due almost entirely to the entrance of national and state banks into the field of fiduciary service, and their qualification as associate members. It is noteworthy that the trust companies and banks having long experience in trust work have most generously made available to the newcomers the full benefit of their judgment and the use of their carefully devised forms and systems. The Trust Company Division has drawn no distinction between any of the institutions embraced in its membership in placing at their disposal all of the aids and services that it commands.

Not a Sideline

IT is our deliberate opinion, however, that a bank or a trust company before deciding to open a trust department should give serious thought to the exacting responsibilities of trust management, due appreciation to the grave liabilities that are ordinarily assumed and thorough consideration to the need for trained specialists and tested systems. Fiduciary service cannot be successfully rendered as a sideline, and unless an institution stands prepared to see that the business is conducted in accordance with the prevailing high standards and in a manner that will redound to its credit, it may well refrain from qualifying. In saying this we are not unmindful of the rich possibilities of profit and usefulness that beckon to banks and trust companies in conserving the wealth of their communities.

The rapidity of the development and the magnitude of the responsibilities bring with them a challenge—a challenge that quality shall keep pace with growth.

Organized thirty-two years ago to protect and advance the interests of the trust companies, to promote improved practices and to secure uniformity of action, the Trust Company Division has functioned ceaselessly to achieve these ends. During the past year its work has followed the same general lines, although its sphere of usefulness has been enlarged.

Gratifying Interest

THE last Mid-Winter Trust Conference—which has been termed the post-graduate course for trust men—held in New York, set a new record in point of numbers and in widespread representation, while the sixteenth annual banquet was attended by the largest number ever gathered for such an event.

The plan of holding regional trust conferences where the trust men of a section may gather for an interchange of ideas, experiences, and methods adapted to their particular problems has now been extended to all parts of the country. These conferences have been of inestimable, practical benefit to our members in the everyday conduct of their trust business. The First Southern Trust Conference, which was held in Chattanooga in April, proved to be so successful that it was decided to make this an annual event for the South.

Before the end of 1928, there will be two other regional trust conferences. The Sixth Regional Trust Conference for the Pacific Coast and Rocky Mountain states will be held in San Francisco on Oct. 17-20, while the Fourth Mid-Continent Trust Conference, which is sponsored jointly with the National Bank Division, will be held in Tulsa on Dec. 3-4. In all sections there has been a gratifying interest in these trust conferences, which have proved to be so helpful to trust officers in suggesting effective means of acquiring new business and in improving the methods of safe and efficient administration.

The proceedings of these four annual conferences are carefully edited and published in pamphlet form. Thus the addresses and discussions—many of them highly technical in character and together covering all phases of fiduciary business—are preserved in permanent form and made available to all the members of the division, to students and others interested. It would be difficult to find more informative and authoritative text-book and study course material than can be obtained from these published proceedings.

Our committees have continued their varied activities in behalf of the trust business.

The division, through its Committee on Publicity, is encouraging and actively assisting trust companies and banks to advertise their services effectively. Each month, by means of the "Building Trust Service" plan, members may obtain attractive and result-bringing newspaper advertisements, booklets, leaflets, and posters, with suggestions for their

use, at a nominal cost. This material measures up to the best metropolitan standards, and is an invaluable aid to the small trust company or bank of slender means which cannot afford to spend large sums for a well-rounded advertising campaign to spread the trust idea. The plan is also helpful to large institutions, which find the material a valuable supplement to their own activities. Three hundred trust companies and banks are obtaining this service at the present time.

Working Together

ONE of the outstanding movements of intelligent cooperation is the natural alliance between the banks and trust companies, on one hand, and the life insurance companies and life underwriters on the other, to promote the insurance trust. How closely these two groups are working in creating and conserving estates may be indicated by the fact that the executive committees of the National Association of Life Underwriters and of the Trust Company Division were able to indorse similar resolutions of cooperation.

Not the least valuable of the committee's contributions during the past year has been the preparation of a model life insurance trust agreement designed to serve as a guide and as a means of acquainting life insurance representatives and trust officers throughout the United States with the standard provisions of an unfunded life insurance trust. In conjunction with the American Life Convention, an association embracing more than 140 life insurance companies in its membership, the committee is planning to publish a booklet stating the reasons for and advantages of insurance and trust company cooperation that will emphasize the fact that both groups believe in adequate insurance and recognize the benefits that can be had through a life insurance trust agreement. The committee is endeavoring to bring about greater uniformity in the requirements of the various life insurance companies as to a change of beneficiaries.

The investigations made by the Committee on Research have been most valuable in ascertaining and anticipating the needs of the members of the division. Through its eighth questionnaire sent out to all members about two years ago, it was ascertained that there was a definite need for an adequate system for the periodical review and analysis of securities in which trust funds were invested. As a result of this study the Committee on Review and Survey of Trust Securities was created at the annual meeting in 1926, and the committee is at present endeavoring to work out such a plan. Its ninth questionnaire revealed that there was also a definite need for a system by which the internal efficiency of trust department operation might be audited and checked. Preliminary steps to make a study of the probate records of selected counties in virtually every state in the Union have been taken, and it is believed that this searching inquiry will produce statistical data of definite value to trust institutions.

While recognizing the importance of aiding its members in the development of new business and the proper handling of it after it is on the books, the division officers have for a long time been concerned with the equally important matter of developing a simple system that will enable trust companies and trust departments to determine the costs of doing business. The Committee on Costs and Charges is at present making a study of various individual systems with the view of producing a plan of procedure that may be used under varying conditions and circumstances as a basis for determining costs. This is a necessary step in placing charges for all kinds of fiduciary service on a more scientific basis. The installation of such a uniform system in the majority of trust companies and banks throughout the country would, moreover, make it possible to obtain comparable figures and statistics from all the banks, as is not now the case, and enable individual banks to determine their relative efficiency as compared with the results achieved by other banks of their size.

Most helpful in bringing about desirable uniformity in fees and practices are the local corporate fiduciary associations and trust sections. There are now more than forty of these associations, and others are in the course of organization. The division publishes an annual directory in which the associations are listed, together with names of their officers and directors and a brief outline of their activities for the year. Recognizing the benefits that can be obtained through these associations, it is the policy of the division to encourage their organization wherever needed, and to give the active ones its hearty support.

The relations of the trust companies with the members of the bar are steadily growing more harmonious. During the past year there have been only two states—Illinois and Ohio—where misunderstandings have arisen; but steps have been taken to bring about an adjustment by the adoption of an approved course of conduct which will be satisfactory to both the bar and the trust institutions. In Illinois a case is now pending before the Supreme Court in which this tribunal is requested to define what acts clearly constitute the practice of law, and asked to restrain all banks and trust companies from such practices. In Chicago an effort is being made to settle all differences by the adoption of a code of ethics governing these relations. Our Committee on Cooperation with the Bar has tendered its good offices in both situations, and has steadfastly taken the position that it is improper for banks and trust companies to engage in the practice of law through their officers and employees.

The community trust is becoming more and more recognized throughout the United States as a means by which public-minded citizens may make sure that their generous bequests will not only be efficiently administered but may never become obsolete. Though the first community trust was established in Cleveland, Ohio, only fourteen years ago, there are now sixty-five such trusts with 180 banks and trust companies serving as their trustees. Our Committee on Community Trusts is assisting the movement. More than $15,000,000 in funds is being administered at the present time. Two new community trusts were set up during the year. There is a marked trend in favor of a multiple trustee.

While this has been a very light legislative year as far as states are concerned, only ten state legislatures convening, some important changes in the laws affecting trust companies and banks have been made. Our Committee on State Activities has kept in touch with the situation in the various states. In New York State the list of "legals" has been broadened to include public utilities, additional municipal bonds and other securities. South Carolina adopted its first code governing the operations of trust companies. The state of New York has also reenacted the reciprocal tax law, by which is exempted from the inheritance tax the intangibles of non-resident decedents. The passing of a similar law by the state of Mississippi now enlarges the total number of states not taxing these intangibles or granting reciprocal exemption to twenty-two, while this statute becomes effective in Virginia in 1929.

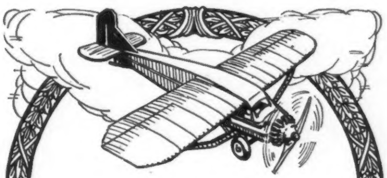
During the coming year, when forty-three states will hold legislative sessions, our Special Committee on Taxation will give very active attention to aiding in the introduction and passage of reciprocal tax exemption laws in the twenty-five states not now possessing them. The committee will also continue its efforts to obtain the repeal of the Federal estate tax at the next session of Congress.

Among the measures advocated by the Committee on Federal Legislation of the Trust Company Division, and enacted into law by Congress, was the bill granting to state member banks of the Federal Reserve System the privilege of being designated as depositories of government funds. Another was the removal of all restrictions on trusteeing the proceeds of government insurance by the passage of an amendment to the World War Veterans Act of 1924. A third was the amendment to the Revenue Act by which the value of property at date of death was made the basis for figuring taxable gains or losses to a decedent's estate. The test case—Corliss vs. Bowers—in which trust companies are questioning the constitutionality of that section of the Federal Revenue Act which taxes the donor on the income from a revocable trust has been argued, but on Sept. 17 the court had not handed down an opinion. Should the opinion be favorable, it would remove an obstacle that is seriously retarding the development of the living trust business in that one person is now taxed upon income received by another.

Responsibilities of Management of Trust Services

By H. L. STANDEVEN
Executive Vice-President, Exchange Trust Company, Tulsa, Okla.

The Trust Company's Obligations Are Generally Classified as Legal, Financial and Moral. But There Are Other Duties to the Community Which the Modern Institution Must Perform if it is To Keep Step with the Nation's Financial and Economic Progress.



Added Service

A TRUST company is judged by the service it renders to the public and its success and prosperity depend upon the extent to which this fact is recognized by its management, Mr. Standeven finds.

The trust executive's responsibility is not that of a custodian; he must conserve and husband the resources placed in his charge and invest them in such a manner that they will increase.

IF it were humanly possible for you to have been living at the time of the birth of Christ, and if you were to have saved one dollar every minute in every hour in every day until the year 1902, you would have accumulated a billion dollars. The mind of man can scarcely comprehend such a vast sum of money, yet twenty times this amount, or $20,480,000,000, represents the resources of approximately 2557 trust companies ard state banks doing a fiduciary business in the United States.

Consulting the publication of the United States Mortgage & Trust Co. of New York, called "Trust Companies of the United States," we learn that last year trust companies alone in this country increased their resources more than $1,145,000,000 over the previous year, 1926, and have more than doubled their resources in the last ten years.

The National Banks

UNDER date of Sept. 26, 1928, E. W. Stearns, Acting Comptroller of the Currency, reported that in addition to the trust companies doing business in the United States there were 2371 national banks authorized to do a fiduciary business under the Federal Reserve Act. Of this number 1516 were administering trusts of that date. At the beginning of the year 1928, national banks were administering 45,583 individual and corporate trusts. The individual assets of these banks were $2,079,858,237. They were acting as trustee for bond and note issues aggregating $6,354,713,237. The report shows that the number of national banks administering trusts is increasing at the rate of more than two hundred per year.

When we consider that the total estimated wealth of the United States is approximately $350,000,000,000, we find that the resources of banks and trust companies doing trust business in the United States is approximately 7 per cent of the total estimated wealth of our country. The responsibility for the management and conservation of this vast sum of money represented by the resources of the institutions doing trust business must not be underestimated, but must receive the serious consideration of every thinking man connected with the management of trust company activities in America. Whenever reference is made to trust companies it also includes national banks exercising trust powers.

Banks' Responsibilities

PRIMARILY, trust companies and national banks with trust powers are great department stores of finance. Although their responsibilities are many, they may be generally classified under three subdivisions:

First—Legal.
Second—Financial.
Third—Moral.

Try as we may, we cannot avoid any of these responsibilities, for every business transaction of a trust company has in it these three elements. We cannot shirk our legal responsibility; we must always be ready to meet our financial responsibility; we must recognize our moral responsibility and measure up to its highest requirements.

Trust company management involves responsibility to its stockholders, to its customers, to its employees and to the public. It is a great institution of service. The wonderful motto of Rotary International, "He profits most who serves best," applies in every detail to trust company activities. Trust company management can make the best showing to its directors and stockholders by rendering the greatest service to its customers and clients. Service and earnings are reciprocal. You cannot earn profits for your stockholders without rendering a service to your customers. In order for the trust company to be prosperous its customers and clients must be prosperous. Contrary to the opinion of many our services are for the living and not for the dead. The greatest lesson on business management ever taught was taught by our Master in the parable of the talents, and it applies to the management of trust companies as well as to the management of the talents.

The plain duty of every trust company executive, of every trust officer and of every man connected with the trust company in any capacity is definitely and distinctly outlined in the parable of the talents. Your responsibility as a trust executive is not that of a custodian. You must render a real service to your customers; you must educate them in the question of investments; you must assist them in becoming creators of estates; you must intelligently conserve and husband the resources that are placed in your charge and keeping and invest them in such a manner that they will increase.

Judged by Service Given

WOULD you be fulfilling to the highest degree the responsibility placed upon you as a trust company executive or trust officer if you followed the example of the servant who had one talent and buried it, and then returned that talent to his Lord and master, or would you be more fully performing your duties and responsibilities if, when your customer comes to you, you return to him

his original investment, and in addition thereto the earnings that he is entitled to receive upon it? Make no mistake, your company is judged by the service that it renders to others, and the success and prosperity of a trust company depend upon to what extent this fact is recognized by its management.

Every trust relationship is a legal relationship. The appointment of the trust company as executor, administrator, trustee, guardian, curator, receiver, agent, attorney-in-fact, registrar, transfer agent, or in any other capacity, is a legal appointment, made either by a court or by a legal contract imposing legal responsibilities upon the trust company. In the administration of these different relationships the company must follow the straight and narrow path prescribed by law and by the decisions of our courts. A deviation from this course on the part of the company means a legal accounting at the bar of justice and the company will be held legally responsible if it has not administered the trust or appointment according to the strict letter of its authority.

It is the duty of the management to have thoroughly competent and well-qualified men in charge of various departments of the company. Those in charge of the trust department must be particularly qualified to handle the administration of estates and trusts through the courts to a successful conclusion. Many complications arise in the administration of estates and trusts, and the questions that confront trust officers are intricate and complicated and demand the best thought and ability that can be procured.

Care must be exercised in the acceptance of trust business to determine whether it is desirable or undesirable, profitable or unprofitable. Many trust officers in the country accept trusts that afterward cause their company a great deal of trouble and, in many cases, financial loss. Trust business is not like commercial banking. When a trust is accepted it is usually for a long period of time, and in many cases the trustee cannot even resign after accepting the trust. If a contract is made to handle this business on an unprofitable basis in the beginning, this will follow through the entire life of the trust, which may be for many years. Many trust companies are now suffering losses as a result of business taken upon an unprofitable basis in their early experience.

Undesirable Business

A GREAT amount of undesirable business is offered a trust company, and one of the responsibilities of the trust management is to analyze business when it is offered and separate the chaff from the wheat so that this undesirable business will not find its way upon the books. Many undesirable propositions are submitted to trust companies by promoters and others who wish to have the company act as trustee for the purpose of assisting them in selling their stocks and bonds to the public. In a great many cases the promoter desires the use of the name of the trust company merely for the purpose of influencing the public to buy his securities. Many times unsuspecting trust officers have been influenced to accept the trusteeship of a questionable stock or bond issue with disastrous results to the company.

If you have earned a reputation in your community for financial integrity and stability the public looks upon securities issued over the name of your company as sound business investments. You owe it to the public never to permit the good name of your company to be used to influence the public in purchasing securities merely because your name is attached to them as trustee or in some other capacity. One or two transactions of this kind and a company loses its reputation as a leader in financial affairs.

Great responsibility is attached to the acceptance of a trusteeship under a bond issue, or to the acceptance of an appointment as registrar or transfer agent for stock. Many wonderful papers and articles have been written and published outlining in detail this responsibility, and I could not do more in the scope of this paper than to call your attention to the great responsibility of the management of trust companies in the acceptance of this class of business.

The Disposal of Stock

IN the handling of trust securities, many states hold trust companies liable for not disposing of stock on a favorable market. A number will not permit trustees to retain certain securities in an estate or trust unless especially authorized by the testator or trustor, and a failure to dispose of these securities has been held in some states to make the trustee liable. This is particularly true in the state of New York, where, in the Villard case, the court held the trust company liable for not disposing of the securities when they could have been sold on a favorable market.

The trust company assumes a responsibility when it accepts a trust as a succeeding trustee, and the management should be very careful to have the liabilities of the trust analyzed very thoroughly before accepting and administering one of this kind.

Great responsibility attaches to the trust company in the administration of trusts in determining what shall constitute income and what shall constitute principal of the trust. The question of taxation is a vexatious one, especially under our multiple system of taxation. Notwithstanding the legal responsibilities imposed upon trust company management the trust companies of America have almost without exception performed these legal services to the satisfaction of their clients and customers and without loss to the trust company.

Financial Responsibility

ORGANIZATIONS doing a trust business must stand as a tower of strength and stability in the financial world. Trust business is intrusted to an organization not only by reason of the confidence placed in the organization and its managing officers, but the financial responsibility of a trust company is one of the principal elements that attracts business to it.

Trust companies and banks with trust departments become the center of financial activities of the community in which they are located. The growth of trust companies in the United States in the last ten years indicates to what extent the American people are becoming educated to the wonderful services that may be performed for them by trust companies.

The passage of the McFadden bill extending practically all powers exercised by trust companies to national banks will, in the next ten years, greatly increase the growth of trust business in this country. New channels of activity are opening to the trust companies. The development of the life insurance trust within the last few years will, without a doubt, result in a phenomenal growth of trust business. It is estimated that approximately $2,000,000 are paid to beneficiaries of life insurance policies in the United States every business day in the year. Last year it was estimated that there were $77,000,000,000 of life insurance in force in the United States. The life insurance companies, banks and trust companies have joined in a national campaign to educate the policy holders and the beneficiaries of life insurance to conserve this vast sum for the benefit of their families, through the instrumentality of the life insurance trust. In all probability, within a few years the major portion of life insurance money paid to beneficiaries will be paid to them under the terms of life insurance trusts. From this source alone, the trust business of the country will increase many billions of dollars.

It is the duty of trust company management to create a sufficient and adequate reserve to take care of every possible contingency that might arise in the administration of trust company affairs, so that whatever liability may be imposed upon a trust company in the handling of its financial affairs may be taken care of without the impairment of its capital. The campaign of trust company education that is being constantly carried on throughout this country will ultimately result in the public becoming "trust minded." None of the virtues of trust companies will appeal stronger to the public than the sound financial condition of the companies performing trust services.

Moral Responsibility

ONLY blood relationships and family ties are closer than fiduciary relationships. A trust company has properly been termed "a friend of the family," or a "father confessor." A man's estate represents hard work, self-sacrifice, self-denial, long hours of ceaseless toil, continuous thought and planning for the

(*Continued on page* 381)

Clarifying Trust Functions in the Public Mind

By FRANK C. MORTIMER
Vice-President Citizens National Trust and Savings Bank, Los Angeles

Banks Must Educate Public to Actual Meaning of Word Trust. Urged to Move to Curb Unbridled and Unlicensed Use of Word Particularly Descriptive of Inviolable Banking Function. Investment Trusts in Their Various Aspects and Legal Position.

NO vocation, the carrying on of which involves intimate understanding of legal and technical matters, can entirely escape misunderstanding. There grows about such a profession or business a certain air of mystery. It is true of law, medicine and theology. The process of clarifying trust functions in the public mind has been going on for many years. In the thirty-two years since the Trust Company Division of the American Bankers Association was organized, and even before, banks and trust companies, as well as the Association itself, have been spending substantial sums and an untold amount of time, thought and effort to do this very thing.

We have informed the public how we act as trustee, as executor and administrator under wills; how we handle living trusts, life insurance trusts, escrows; how we act as guardian, as custodian, as depositary, transfer agent, registrar and fiscal agent; how we serve the individual, the firm, the corporation. We have tried to make clear all those matters that to the layman constitute the mystery of trust service.

Time Will Tell

"IN a rising market such as we have experienced for many months, it was comparatively easy, even for inexperienced investors, to reap profits. The true test of the efficiency, dependability and profitability of the so-called investment trusts in the United States will come when and if we pass through a prolonged period of recession in the prices of stocks and other securities of the character purchased by investment organizations."—Frank C. Mortimer.

Faith Established

THAT this clarifying effort has been successful is shown by the degree of confidence and respect with which the financially-conscious public has come to regard any business or a department of any business which makes use of the word "trust" in its title, or in literature descriptive of its operations. To the trust officer himself, the word has become as sacred as is "faith" to the ecclesiastic.

But in doing the job so well in a positive direction, have we not failed to cover it in its negative aspects? In among all our thoroughgoing publicity; in among all our meticulous adherence to every principle of law and ethics in our relations with our clients, have we not deliberately established, in the mind of the public, an implicit faith in a word which has no protection against its incorrect and improper use by those not engaged in the trust business? This appears to be the situation.

There has been organized in the field of finance and investment in the United States a large number of investment organizations designating themselves as "investment trusts," trading, as it were, on the public confidence long ago established by banks and trust departments of banks—confidence long ago established by specific laws covering the investment of trust funds. This confidence of which I speak has been patiently and consistently built up. It has taken many years of careful, constructive work, of painstaking and conscientious effort, to acquaint the public with the true functions of a trust company. The very nature of the business is such that we must inform each succeeding generation. It is too sacred a relationship, that of trustor, trustee, and beneficiary, to permit others to appeal to the public purse through the promiscuous use of the word "trust."

It is a far cry from the legal responsibilities of individual trustees and from the business of our trust departments and our trust companies to the operations of some of the outside investment trusts organized during the past five years. They do make investments, it is true, but they are not organized to do a trust business in its proper sense. This is doubly unfortunate in that there are probably no two words in the field of finance which, taken together, are more imposing or more confidence-begetting than "investment trust." The investment of trust funds, however, is a very different matter.

Improper Use

IN no way is it made more evident that these so-called investment trusts do not do a trust business than by the fact that whenever such organizations have occasion to trustee their securities or investments, they then use a true trust service through a legalized trust company or bank.

So essential did the Los Angeles Chamber of Commerce consider it to find ways and means of properly advising those who may now have or who may contemplate having transactions with this new infiltration into finance (new as to number and designation, but not as to function), that it put a committee to work early in March of this year on the "investigation and regulation of investment trusts." It was my privilege to serve as chairman of that committee, which pursued its investigations in an unbiased manner, gathered a large volume of information from reliable sources throughout the United States and digested reports concerning the operations of investment trusts in other countries.

The report of this committee laid particular emphasis upon the improper use of the word "trust" in the titular and descriptive designations of these investment organizations. It is gratifying to observe, since the publication of this report in May of this year, that bankers, trust officers, public officials, and some state and national organizations are now stressing the importance of this single aspect of the subject.

It was not the desire of that committee, nor is it the desire of your

speaker, to attempt to suggest the suppression, improper restriction, or undue regulation of other people's business—especially if such business be sound, legitimate, and properly conducted. But I do dedicate myself most earnestly to the proposition that no business, however soundly conceived and wisely run, can have a permanent and respected position in our financial firmament so long as it masquerades under a designation which so incorrectly signifies the nature of its business.

Trust companies and trust departments of banks operate under the laws of the several states, under the National Banking Laws and the Federal Reserve Act. These laws, with attendant regulations, have aimed to afford ample protection to those who use trust facilities. Before state or national banks and trust companies can use the word "trust" or engage in "trust business," such banks and trust companies are required by law to have a substantial amount of capital actually paid in in cash, and are further required to deposit cash or approved securities with a state official, and to lodge additional deposits of cash or securities as their volume of trust business and their responsibilities to the public in trust matters increase, to assure the faithful performance at all times of their duties in handling trust funds. The use of the words "investment trust" by other than banks and trust companies may cause some people to infer that investment trusts furnish the same clearly defined protection which exists in the case of banks and trust companies. It is apparent that like protection is not afforded, nor are the operations and responsibilities the same. The one merely invests the funds of its members or stockholders without specific legal regulation—the other administers funds held in trust, under laws which are specific as to the character and class of investment.

Investment Groups

WE find, therefore, that there are no similarly strict laws to govern so-called investment trusts as compared with those governing trust companies and banks. Therefore the same degree of protection is not legally provided. The confusion arises from the general application of "investment trust" to companies or associations which are not in reality acting in any manner as trustees, but rather as investment organizations. The designation "investment trust" has been rather loosely applied to groups, companies or corporations having broad powers to buy, sell, and hold securities and other property. In such instances the designation of "investment trust" appears to be wrong. More properly, investment organizations should be classed and described as "investment groups," "investment associations," "investment companies," "investment pools," or "investment organizations," and should so designate themselves or be so designated by law.

There are clearly defined legal restrictions to be found in Federal and state laws covering the use of such words as "Bank," "National Bank," "Trust Company," "Savings," "United States," "Federal," and "Reserve" in titles and descriptive titles, and they were placed there for a definite and worthy purpose.

But we have no quarrel with any general investment plan as such. For no one who has studied the problem can gainsay the fact that investment organizations, when properly designated and properly conducted, may be destined to occupy a more important place in our financial structure. There appears to be a definite field for well-managed and sound organizations. While it is true that some have encountered difficulties and losses—just as they did in Great Britain, during the experimental stage, and just as we do in banking—it is likewise true that others have been highly successful and profitable, especially those organizations that have been managed by men of integrity, of experience, of sincere purpose and of sound financial judgment.

Patterned After British

CORPORATIONS or organizations having for their object the investment of the funds of their stockholders and holders of participating certificates or other obligations are not new in this country; they have existed for many years in various forms. Recently there has been a good deal of activity in organizing such companies or groups. Many of them have been patterned after the investment trusts in Great Britain and have used the latter as examples of successful operation. As a consequence, the general designation of "investment trust" has been applied to or assumed by many of the newly organized groups or companies in this country doing an investment business.

Excluding holding companies and other companies coming under the general head of financial corporations, we find that the large number of newly organized "investment trusts" fall within three general groups, as follows:

The mobile or discretionary type, wherein the management is authorized to make the investments and to use its own discretion, without limitation, in buying, selling, or exchanging securities or other property.

The quasi-discretionary type, wherein some restrictions are placed on the management as to the character or amount of investments to be selected.

The fixed or permanent type, wherein definite investments are made and remain in the possession of the company, and wherein no discretionary powers are conferred upon the management in substituting or changing the investments.

Can Be Made Safe

SOME so-called investment trusts, operating at present with a good deal of freedom, bid fair to become highly competitive with the old-established institutions for the accumulation of funds for safekeeping and profit which are under strict regulation covering amount of capital as related to liabilities; rates of interest to be charged which bear upon earnings; the maintenance of ample cash reserves; the employment of certain funds without income, and the payment of certain taxes and assessments—from much of which the unregulated "investment trusts" are today free, yet they are attracting the funds of the people largely because of a belief that higher earnings will accrue than it has been possible for them to obtain through those older and more seasoned institutions, such as banks and trust companies.

Being well within their scope of activity under the laws, some trust companies and banks have organized investment trusts under their own management, the object, no doubt, being either to protect their clientele or to enlarge their patronage. A new army of investors has been created in the past fifteen years. Many are inexperienced and require sound guidance. A well-managed investment trust or investment company can relieve the individual investor of much of the detail incident to the selection of diversified, high-grade securities, and many investors are seeking just such guidance. This modern development, under proper legal restrictions and under sound and wise management, can be made one of the safe, outstanding financial operations of the day.

The eagerness with which the public is taking to the investment trust idea, coupled with the rapid growth and wide field of operations covered by these organizations, has attracted the attention of economists, bankers, business men and public officials. It is admitted that wide opportunities for abuses exist in loosely operated and managed organizations, and that some form of public protection may be necessary. Moves have been made in some states to attempt strict regulatory measures, and consideration has been given to the idea of placing such investment organizations under the supervision of state banking departments or other special divisions of state governments, as in the case of banks, trust companies, building and loan associations and insurance companies.

No Special Legislation

THERE is a wide difference of opinion as to how strictly this lately popularized form of investment organization shall be regulated or controlled. None of the states have so far passed special legislation to apply to their activities. Out of forty-eight states it appears that forty-four have state security commissioners, or similar officials, with a certain degree of authority, attempting to guard the public against irresponsible promoters.

The State Corporation Commissioner of California recently promulgated regulations, the object being to protect the public in the conduct of so-called "investment trusts" and in the sale of stock or securities by them.

The commissioner is endeavoring to limit the granting of permits to sell

(*Continued on page 383*)

Modern Tendencies in Wills

By GILBERT T. STEPHENSON
Vice President and Associate Trust Officer, Wachovia Bank and Trust Company, Winston-Salem, N. C.

Seven Tendencies in Wills Reflect Trust Company Influence. Result Is Better Wills, Administratively, Legally and Socially. Specific Provision for the Home Support Now Usual. Will-Making No Longer Considered Confession of Feeble Age.

The Hand of Time

DEVELOPMENT of the art of will writing is here likened to the slow growth of the giant Sequoias of California until the advent of a strictly modern agency—the trust company. Instead of making a will in the panic of impending death, the testator of today makes provision for his family while at the height of mental and physical vigor. Hence the present tendency is more and more in the direction of workable wills.

TENDENCIES in modern wills are not easily detected, because changes in wills as a rule are very slow. Written wills 4,000 years old are still in existence; the date of the first one is, of course, lost in antiquity. One cannot detect changes in such an old institution as will-making as he can in a modern mechanical device.

It is not like comparing an automobile of today with one of twenty-five years ago, or an airplane of today with one of five years ago. It is more like following the slow growth of the giant Sequoias of California, some of which are said to be over 4,000 years old. If one should visit the Sequoia grove today and again fifty years later he would not notice much growth or decay in the trees. Yet we know that processes of growth and decay are going on silently and unnoticed all the time.

So it is with wills. Although the wills of Sekheuren of Egypt, dated 2548 B. C., of Sennacherib, King of Assyria, made during the eighth century B. C., and of King John of England, executed in 1219 A. D., to select three at intervals of about 1800 years, are different in form and substance from the wills of George Washington and Benjamin Franklin made in the nineteenth, and of Judge Elbert H. Gary, Frank A. Munsey, and Victor Lawson made in the twentieth century, it would be difficult to trace the evolutionary processes through the centuries from the will of Sekheuren in 2548 B. C. to that of Judge Gary in 1927 so as to be able to discern a tendency in one direction or another during any reasonably brief period.

The First Tendency

WHILE sufficient evidence of the tendencies in modern wills appears to be found in a comparison of ancient and modern wills—by ancient wills meaning those a hundred years old or more—I confess that the tendencies I name are the reward of a hopeful search; and another student would, no doubt, discover tendencies in other directions.

The first tendency in modern wills to be noted is the turn to trust companies and banks to settle estates and administer trusts. A hundred years ago there was not a will in the United States in which a trust company or bank was named executor or trustee (the word "trust" was not then part of the title of any corporation); fifty years ago there were very few; twenty-five years ago there were many more, but still not enough to make much impression upon the public mind; last year 750 trust companies and banks were named executor or trustee under 27,983 wills, an average of over thirty-seven apiece, and one of them is known to have been named in 3,000 wills and twenty-seven of them in 200 or more wills.

The phenomenal increase in trust company and bank appointments has been during the past five years. The number of times they were named executor or trustee under wills during 1927 was four and a half times as great as the total for 1923, an increase of 374 per cent in four years.

Making Warp and Woof

THE second tendency in modern wills is to make the creation of them a co-operative enterprise. The testator, now and always, must furnish the information about his estate and his beneficiaries and in his own way, however artless that may be, state his testamentary desires. And let us hope that he is giving more earnest and intelligent thought to the contents of his will than his predecessor did. The trust officer, drawing upon his wealth of experience, is advising as to features relating to administration, investment and distribution of estates. The lawyer, making warp of the testator's information and desires, and woof of the trust officer's advice, is weaving the fabric of a legally sound will.

One of the most encouraging signs of the times in the making of wills is the increasing comity between lawyers and trust officers. Nearly ten years ago, for instance, our company distributed among the lawyers of North Carolina a little book on wills, and since then has offered to present a copy to each one newly admitted to the bar, with the result that the book is now in the hands of a large proportion of the lawyers of the state and, we trust, is influencing them, not as to the legal but as to the practical aspects of wills. The Security Trust and Savings Bank of Los Angeles has recently issued a loose-leaf set of forms of wills with the expressed approval of the Bar Association of Los Angeles. These are but two of many instances of lawyers and trust officers voluntarily turning to each other for mutual aid in the preparation of legally sound and practically workable wills.

Act of Vigorous Manhood

THE fourth party to this cooperative enterprise of will-making, yet the one of all most concerned, is still standing at the threshold hesitating whether to enter or to retreat. She is the wife of the testator. Sometimes she is invited to sit at the conference table, more often she is not; sometimes, when invited, she accepts the invitation; more often she does not.

The third tendency in modern wills is to accept the making of a will as the normal act of vigorous manhood, rather than dread it as the desperate effort of decrepit senility. The average age of the person who makes a will, naming our company executor or trustee, is about forty-five years.

In literature and conversation about wills today the predominant note is not

(*Continued on page* 386)

The State Secretaries Section

New Ideas Developed in the States Exchanged by Secretaries. Better Bank Methods Studied in Light of Spread of Movement for Abolishing Free Services. Analysis Urged for Discovery of Leaks. Rescission of Registered Mail Regulations Sought.

INFORMAL discussion was the order of the day at the annual meeting of the State Secretaries Section which was convened by President William A. Philpott, Jr., Secretary of the Texas Bankers Association, on Wednesday afternoon, October 3. Members of the section showed great interest in banking developments in the various states and speakers were repeatedly called upon for details which have been adopted in different localities for the improvement of bank operations.

Special interest attached to the expansion of the service charge movement and other measures being put into effect in many of the states to increase earnings and hold down the margin of expenses.

Officers Elected

FRANK WARNER, of Iowa, was elected President of the State Secretaries Section for the coming year. M. A. Graettinger, of Illinois, was elected First Vice President, and H. G. Huddleston, of Tennessee, Second Vice President. Robert E. Wait, of Arkansas, was re-elected Secretary of the Section.

The Board of Control was constituted with the election of Mr. Warner, Mr. Graettinger, Mr. Huddleston, Mr. Philpott, and Henry S. Johnson, of South Carolina.

Frank Warner

Secretary Iowa Bankers Association, Des Moines. Incoming President State Secretaries Section.

New Methods

THE report of the Committee on Better Bank Methods was submitted by Mr. Huddleston, its chairman, who reported a survey disclosing the following to be among the new methods in force in different states looking to the reduction of bank expenses: reduction of interest rates on deposits; abolishing free over-printing of checks; reduction of losses by establishing credit bureaus and reduction of unnecessary advertising through local agreement. Under the head of new sources of revenue, it was found that many associations have adopted a schedule of charges for many services heretofore extended without charge.

"No reference has been made," Mr. Huddleston said, "to analysis of operating costs as a part in better banking methods. In our opinion, analysis is the key to the whole situation. If the banker through analysis is made to realize what is unprofitable, and if the leaks are discovered, less effort will be necessary in persuading him to change his methods. He will, in all probability, find the remedy without great assistance. So, we believe, that in connection with better banking methods the subject of analyses cannot be too greatly stressed. It is realized, however, that it will be difficult to get banks generally to adopt this practice of analysis of costs.

Other Factors

IN considering ways for bringing about the adoption of these new methods which we term better methods, the county organization, or organization of banks by trade territory, seem to offer the best means. Including states that are emphasizing county credit bureaus, there are sixteen associations that are organizing their members by units smaller than group organization. Many of these new policies may and have been adopted successfully by one bank acting alone, but other local banks usually adopt the same policies soon thereafter. Likewise, one county will follow the example of an adjoining county.

"We should state that there, of course, are better banking methods to be considered, other than those affecting bank earnings in a direct manner. We merely mention some of these as follows: More general use of borrowers' statements; more consideration to secondary reserves; increased surplus through smaller dividends, if necessary; better trained bank employees for better trained officers in future years; more effort toward informing the public as to the functions of banks."

Other reports submitted were on county organization and credit bureaus by Haynes McFadden, of Georgia; bank operation costs and income by Paul P. Brown, of North Carolina; state and national bank taxation by F. P. Fellows, of Minnesota; and public banking education by C. F. Zimmerman, of Pennsylvania.

High Cost of Crime

THE report of the Bank Banditry Committee submitted by Eugene P. Gum, of Oklahoma, showed the success with which new and drastic methods of protection and prosecution were being made effective against bank holdups, particularly in the country districts.

"Bank banditry," he said, "probably incorporates one of the major crimes that is sweeping over the country today. It is so broad and sweeping in its ramifications that it is simply appalling. It seems to me something that we might well give our attention to. It is all right to make money with the service charge and in other ways, but we have got to keep it after we get it, if we can.

"Crime costs more than war. In 1922 and 1923, crime cost the American people more money than the Revolutionary War and the Civil War and the Mexican War all combined, and in 1925

(*Continued on page* 414)

The Condition of Business

General Business Continues to Be Stable and Satisfactory. High Interest Rates the Chief Problem. Public Flotation of Securities Absorbs Bank Credit. Stagnation of Bond Market and Accumulation of New Capital Forecast Lower Rates Eventually.

CONTINUATION of abnormally high interest rates has further concentrated attention on the banking and credit situation. Inasmuch as general business displays few important changes and maintains its quite satisfactory character, the monetary problem is of primary interest at this time.

In the abundance of discussion regarding the monetary problem that has taken place this summer and autumn, numerous fundamentals have hardly been revealed, so great is the quantity of different factors, statistical data, surface phenomena, personal interests, political arguments, etc.

Immediate cause of this tightening was the withdrawal of large gold stocks from the foundation of our banking system at the very time that the superstructure of bank credit was being rapidly extended. Again and again this development has been noted in these columns, also its inevitable and obvious result in tight money which is now being experienced.

While gold reserves appear still to be ample, judging from the statements of condition of the Federal Reserve Banks, most people do not consider that the really significant index is not that of gold to currency and deposits in Reserve Banks, but that of gold holdings to currency in circulation and total member bank deposit liabilities combined. This ultimate reserve is what is getting low and causes concern. At present it is lower than in most foreign countries.

A certain expansion in bank currency and deposits is to be expected to meet the normal growth of business. The wealth of the United States is tabulated by the Census Bureau every ten years, the latest being at the close of 1922 and totaling $321,000,000,000. The average increase amounts to slightly over 5 per cent annually, which would be $16,000,000,000. Divided among manufacturing, utilities, railroads, trade, real and personal property, this constitutes a substantial annual increase in the total to be financed by the country's banking system. These Census figures are very conservative and much below present replacement values.

Effect of Public Financing

MORE striking than the normal growth in wealth, however, and its consequent demand on banking facilities as a medium of exchange, has been the great increase in volume of listed securities. Observers of our investment markets since the war cannot have failed to be impressed by the transfer of countless privately owned companies to the public. Dodge Brothers' sale to a banking group for $146,000,000, and its subsequent flotation to the public at a considerably higher figure, furnished a sensational illustration of this tendency, but the same process has been taking place in the case of one or more smaller companies practically every day for a decade. Ownership that was once fixed has thereby become mobile and the burden of financing its frequent transfer added to that of the usual exchanges of industry and commerce.

Not only is the volume of listed stocks and bonds growing rapidly, but the public financing of an enterprise previously closely held invariably involves a mark-up of values to correspond with present price levels. For example, if a chain store corporation having property carried at $10,000,000 is floated to the public at a valuation of $20,000,000 (which may be justified by reappraisal of fixed assets and capitalization of good will or "excess earning power"), we have doubled the valuation of this drug business and at the same time made its ownership more mobile. Naturally the requirements on the banking system for its financing are materially increased.

Yet another result of public flotations is the making possible of marginal trading, which, together with listings and reappraisals creates in all three new demands for credit. Stocks and mortgages of privately owned concerns are seldom borrowed against, but similar securities of publicly owned corporations are acceptable collateral for further loans. Individuals are free to engage in marginal trading (including the pledge of securities with banks instead of brokers, which amounts to the same thing) provided they can present satisfactory collateral and are willing to pay the going interest rates. Such action is difficult to check except by warnings that security prices are being bid up to excessive levels, and the question of whether or not present prices are too high is by no means settled.

In place of the discussions of "brokers' loans" that arrive nowhere, of "stock averages" that are misleading, and of "Reserve Bank oppression" that are ridiculous, the student of banking might better dig below these surface movements down to economic principles. Fundamental factors worthy of study would be the growth of the country's (1) wealth over the last ten years, (2) public securities (including listings of stocks and bonds, not only on the New York and other exchanges, but also those traded in the over-the-counter markets), (3) combined currency and deposit liabilities of all member banks. Then take the ratio of (4) currency and deposits to wealth, also (5) public securities to national wealth, and (6) currency and deposits to public securities. Measure banking strength by comparing (7) gold reserves to currency and deposits, also (8) gold to total wealth.

Effect of Savings

ACCUMULATION of new capital continues at an enormous rate and, with the near suspension of financing resulting from tight money, tends to work down the interest charge that will be paid for the use of these savings. Only the banking position, unexpectedly suffering an extensive and rapid loss of gold, causes interest rates on *credit* and thereby on capital to remain abnormally high.

No one can say how soon cheap money will return, but the economic forces are fast working to break down the rates by steady production of new capital in the form of savings. "Brokers' loans" may never go down, for, as we have pointed out, they represent the financing of *ownership* in business property that has been publicly floated. If stocks are at prices that represent sound values based on assets, earnings and future prospects, there is no reason why an owner should not carry loans against them, protected by conservative margins. To be sure, such a process absorbs banks' credit, but, like installment buying, the public ownership of industry generally has come to stay.

No authority has gone so far as to assert that the American banking system has not kept pace with the growth of wealth, or that it has become inadequate for financing the country's production, trade, and also ownership. Possibly the level of currency and deposits outstanding must remain on a permanently higher level. Gold exports are necessarily replaced by loans, and excessive loans with their resultant high rates may again attract gold into this country. Solution of the problem can come only by a recognition of its broad scope, and normal rates may very likely involve still further modifications of our old concepts governing commercial banking, before investment banking developed to its present-day size and importance. Federal Reserve and private bankers alike who have been inclined to

distrust any developments that do not conform with the old standards may, in their attack on this problem, eventually adopt a broader viewpoint and establish new standards.

Profits Irregularly Higher

ADDITIONAL corporation reports on half-year earnings published since our tabulation presented last month make practically no change in the indicated trend. Of 350 leading concerns representing all lines of industry (but not including railroads and utilities), the aggregate net profits for the first six months of this year amounted to $715,315,000 as compared with $697,293,000 in the corresponding period last year, or 2.6 per cent higher. The 185 Class I railroads made $462,025,000 in 1928 compared with $472,998,000, a decrease of 2.1 per cent. Public utilities, however, reported a substantial gain, net profits of ninety-five leading systems increasing from $391,337,000 to $428,767,000, or 9.6 per cent. Grand total of the 630 corporations reached $1,606,107,000 in the first half of 1928 as against $1,561,628,000 in 1927, an increase of 2.8 per cent.

Classified into twenty-eight manufacturing and trading groups, sixteen were higher than last year, as follows, with the percentage gain indicated:

Leather and shoes	+55.0
Shipping	+43.9
Copper	+36.0
Auto accessories	+36.0
Amusements	+30.9
Chemicals and drugs	+25.1
Autos and trucks	+22.6
Electrical equipment	+22.6
Paper	+19.0
Merchandising	+17.0
Printing and publishing	+15.4
Non-ferrous metals	+14.2
Food products	+12.8
Office and home appliances	+ 6.8
Silk and rayon	+ 4.5

Twelve of the twenty-eight groups were lower, as indicated by the following percentages:

Flour and bakery	— 2.3
Tobacco	— 3.1
Iron and steel	— 7.2
Machinery	—10.5
Petroleum	—11.1
Building materials	—19.4
Apparel, etc	—21.0
Railway equipment	—27.7
Lumber and furniture	—38.9
Coal	—41.6
Cotton manufacturing	—Def.
Rubber products	—Def.

Production Is Well Maintained

MANUFACTURING activity continues at a high rate, and while the autumn expansion is reported in some quarters to be less than normally occurs, this is largely accounted for by the fact that midsummer seasonal decline was less severe than normal.

Banner records are being achieved by the basic steel industry, whose production to date is 7 per cent ahead of last year, also in the important motor industry whose output in August was the highest for any one month in history, and for the year to date has run 15 per cent ahead of 1927. A new record for the current year is expected. Export trade in automobiles has grown to such dimensions that the current year's total should reach approximately $500,000,000.

Building construction has slowed down somewhat, as a result of the tight money this summer which cut down the volume of new financing. A close relationship exists between security flotations and building construction. Less satisfactory sales and earnings must be expected in those lines producing building materials, such as cement, lumber, brick, hardware, heating and plumbing fixtures, paint, glass and furnishings. Contracts awarded in August were 6 per cent below August of 1927 but cumulative total for the first eight months of the current year is still 6 per cent ahead of 1927.

Commodity Prices Firmer

RISING copper prices have featured the commodity markets during the last month, bringing quotations on the metal to 15¼ cents per pound which is the highest for several years and compares with 14 cents in January of this year. Better earnings of the mining companies should result and the 1928 annual reports will undoubtedly make pleasant reading to stockholders. Supplies of copper are down to a minimum, and a second large export combination has recently been organized. Lead prices are up moderately and other non-ferrous metals are firm.

Agricultural products have also been working higher. Wheat is up about 10 cents per bushel from the price of a month ago and is more than 20 cents higher than in October, 1927. Corn weakened somewhat but is still above a year ago. Steers, hogs, lambs, butter and wool are all at prices which insure better returns to the farmer than last year.

The latest price table of the Bureau of Labor made up from 550 commodities in wholesale markets is as follows:

1926=100	Aug., 1927	July, 1928	Aug., 1928
Farm products	102.2	107.1	107.0
Foods	94.2	102.3	104.1
Hides and leather	111.7	124.2	121.0
Textile products	96.2	96.8	96.3
Fuels and lighting	84.1	82.8	84.6
Metals and products	98.0	98.6	100.4
Building materials	92.9	94.4	94.6
Chemicals and drugs	95.4	94.5	94.7
Housefurnishing goods	98.6	96.9	97.2
Miscellaneous	89.9	80.8	79.3
All commodities	95.2	98.3	98.9

Indications point to continued stability and firmness in general prices over the year-end.

Stock Market Activity Increases

TRADING volume in the stock market has recovered to the rate of last spring and reflects enormous public participation. The volume of trading on the New York Exchange so far this year is 80 per cent above the corresponding period of 1927 but a large part of the increase is accounted for by increased listings and split-up of shares.

Most of the recent recovery was made between the middle of July and the last of August while September trading witnessed greater activity but small price changes either up or down.

Indexes of the *New York Times* stand around 125 for 25 railroad stocks (compared with the 1928 high of 129.10 in May and low of 112.84 in February) while that for 25 industrials is around 285 (compared with high of 289.17 on September 18 and low of 233.42 in February).

New Financing Resumes

SIZABLE new offerings of investment bonds appeared in the market during the past month after the almost complete suspension of underwritings during August, whose total amounted to only $98,852,000 as against $356,259,000 in August a year ago. Final records for the first eight months of the year show a total of $3,611,440,000, which is substantially below the underwritings for the corresponding period of 1927 amounting to $4,279,704,000, but still above the 1926 total of $3,129,430,000.

Bond trading has continued sluggish under the pressure of tight money, and prices have moved only fractionally with a firm undertone, however. Measured by *The New York Times* averages of forty seasoned domestic issues, the index stands around 91 compared with the year's low of 89.24 on Aug. 14 and the high of 93.60 on May 3.

The largest issue of the month was $23,000,000 Republic of Bolivia external sinking fund 7's offered at 97½ to yield 7.18 per cent. Another important foreign issue was $16,000,000 Republic of Chile 6's to yield 6.44 per cent.

Sizable domestic offerings included $22,500,000 Rochester Central Power Corporation debentures; $20,000,000 North American Edison Co. debentures,

(*Continued on page* 428)

Major Financing in September

Issue	Amount	Rate	Due	Price	Yield
Republic of Bolivia ext. s. f	$23,000,000	7	1969	97½	7.18
Rochester Central Power Corp. deb. A	22,500,000	5	1953	90	5.76
North America Edison Co. deb. B	20,000,000	5½	1963	100	5.50
Rhine-Westphalia Elec. Power Corp. cons	20,000,000	6	1953	94	6.49
Republic of Chile ext. s. f	16,000,000	6	1961	94	6.44
Alabama Power Co., 1st & ref	15,000,000	5	1968	99½	5.00
Georgia Power Co. 1st & ref	15,000,000	5	1967	98	5.12
Wardman Real Estate Prop., Inc., 1st & ref	11,000,000	6½	1931–48	100	6.50
Graybar Bldg., New York, 1st s. f. A	10,500,000	5	1946	92½	5.67
Ill. Pr. & Lt. Corp. 1st & ref. C	10,000,000	5	1956	96	5.25
Finland Residential Mortgage Bank, 1st coll. s. f.	10,000,000	6	1961	94½	6.40
State of Illinois highway	9,000,000	4	1945–54	98.30–.80	4.10
C. M. St. P. & P. RR. eq. tr. ctfs	8,911,000	4½	1929–43	..	...
Gatineau Power Co. deb. B	7,500,000	6	1941	101	5.88
Green Mt. Power Corp. 1st	7,000,000	5	1948	96½	5.27
Kendall Co. deb. A	6,500,000	5½	1948	95	5.93
Memphis Natural Gas Co. 1st s. f.	6,300,000	6	1943	99½	6.00
Allegheny County, Pa., road, etc	5,003,000	4¼	1929–58	..	4.10
Utilities Service Co. 1st A	5,000,000	6	1953	99½	6.00

Resolutions of the 54th Convention

FORMER President of the American Bankers Association C. A. Hinsch, president Fifth Third Union Trust Co., Cincinnati, Ohio, as Chairman of the Resolutions Committee of the 54th Annual Convention of the Association presented the following resolutions at the last general session and they were unanimously adopted:

The Credit Situation

FOR the purpose of assisting in the necessary stabilization of the currencies and exchanges of foreign countries and their return to the gold standard, and to enable foreign countries to buy our commodities freely, the Federal Reserve System established low discount rates. During the same period, this, together with the plethora of capital, accumulated since 1921, seeking investment, made it possible for corporations of this country to obtain funds through the issuance of securities of various types.

As a result, the large corporations through the sale of their securities liquidated their indebtedness, and thus a large volume of paper eligible for rediscount at the Federal Reserve banks has been eliminated. Further, many corporations have been supplied with funds in this manner, for which they have had no use during the major part of their fiscal years and which they have utilized by making loans against stocks and bonds.

At this same time, we continued to make loans to Europe which followed by exports of gold, resulted in a net loss of $500,000,000 in gold which lessened to that extent our surplus reserves. Never before in our history has the public taken the same interest in stock investments or speculation as it has during the past six months, and this coupled with favorable business developments, has caused market values to advance to unprecedented levels, thus increasing the demand for stock exchange loans.

We recognize the fact that as corporations which have secured funds through the issuance of securities in excess of current requirements continue to expand, they will gradually return to their former relations with their bankers, under which they naturally borrow through the issuance of eligible paper while processing materials and distributing production.

We therefore look upon the present situation as one which will undoubtedly correct itself as time goes on, until the banking system of the country again has a proper control over the surplus funds of the country. But it is our opinion that the development of the practice of withdrawals from banks by corporations and others for the purpose of making loans on stock exchange securities should be limited in some reasonable manner, possibly based upon the maintenance of normal balances which should not be disturbed by those who take part in stock exchange loans.

We respectfully suggest that bank depositors who have funds for investment cooperate with their bankers to the end that nothing unsound shall be allowed to develop that might result in the disturbance of the healthy business conditions upon which we must all depend for our comfort and happiness.

It is highly desirable that the Federal Reserve Board in its regulations give due consideration to the situation of the great body of member banks. The recent change in the rule governing the adjustment of reserves of banks located in cities having a Federal Reserve bank or branch thereof, has imposed an unnecessary burden upon such banks, most of which have never abused the privilege formerly accorded them of adjusting reserves weekly. We suggest to the Federal Reserve Board that it again permit a weekly adjustment of reserves and penalize only those banks which abuse the privilege. We also suggest that the percentage of reserve be based upon the bank's condition at the beginning of the day.

Capital Gains Tax

THE United States of America is the only country in the world that levies a capital gains tax. We believe such a tax in peace times to be uneconomic and unsound in principle and in practice and tending to check the wheels of progress. The imposition of such a tax is doubtless one of the factors in the speculative situation in the stock market, as many persons who have large paper profits hesitate to liquidate now in view of the large tax they would have to pay; and this situation alone appears to be a good argument in favor of the repeal of such a tax. Great Britain treats capital gains as an increment to capital, and it is recommended that the United States pursue the same policy.

State Taxation of Banks

THERE are now pending before the Congress of the United States various bills to amend that portion of Section 5219 of the Revised Statutes of the United States which authorizes taxation by the states of the stockholders of national banks, the effect of which amendments would undo the long-established underlying principle embodied in that section, which the United States Supreme Court has stated was designed to render it impossible for states to discriminate against national banks in taxation.

We deem it vital to the banking system of the United States that the integrity of the established principle of Section 5219 for the protection of national banks against discriminatory taxation by states be firmly maintained, as the principle embodied therein operates also in a large measure for the protection of the stockholders of state banks.

Therefore, we recommend that this association reaffirm the resolution adopted in 1927 at its annual convention at Houston, Tex., and declare its opposition to any amendments to Section 5219 which tend to infringe upon the integrity of the protective principle thereof and directs its Special Committee on Taxation to carry out the purpose of this resolution.

Agriculture

WE view with satisfaction the fact that within the present year the prices of most farm products have recovered more nearly to their pre-war relation to the prices of the products of other industries than has been the case in any other year since the war. We believe that this represents a national readjustment, due in part to a more intelligent control of agricultural production in relation to the consumption demand, and in part to lower costs of production in other industries which are reducing the prices of goods which the farmers must buy. We urge the cooperation of our members in the activities of our Agricultural Commission in the introduction of improved livestock and improved methods of production and marketing in their own localities. We believe that an important contribution to remedying the agricultural depression lies in the adoption of methods which will lower the unit costs of production, and believe that the agricultural colleges and experimental stations are successfully developing the means by which they may be accomplished.

We believe also that agriculture suffers from the lack of a comprehensive national agricultural policy, due to the complexity of the subject which has required wide national discussion, and we urge upon Congress diligent continued attention to the remedying of this situation.

Unsound Practices

DUE to the strong competition which has arisen throughout the country between banking institutions, unsound practices have developed which tend to lower the high standard of our banking practice. We have in mind especially the rendering of various classes of service without proper compensation, and paying high rates for money left on deposit.

Hosts and Speakers

THE association extends the sincere thanks to the bankers, hotels, press, ladies, and general public of the city of

(*Continued on page* 414)

Growth of School Savings Banking

BELOW is a summary of school savings by states with comparative figures as far back as 1919, prepared by the Savings Bank Division of the American Bankers Association.

The table tells the story of school savings banking in this country, which is one of continued growth. As of June 30, 1928, there were reported 13,835 schools in which opportunity for school savings banking is offered as compared with 12,678 a year before.

Schools which offer the opportunity for savings banking are attended by 4,609,825 pupils, of which 3,980,237 are participants in school savings banking. During the year these pupils deposited $26,005,138.04, received interest in the amount of $947,610.87 on these deposits and at the end of the school year had net savings for the year of $9,476,391.32.

As compared with the preceding year, the number of schools increased 9.1 per cent; the enrollment in schools affording opportunity for school savings banking, 5.7 per cent; participation by pupils, 6.3 per cent; deposits, 9.7 per cent; interest, 19.5 per cent; withdrawals, 15.4 per cent; and net savings, 0.12 per cent.

The continued development of school savings both geographically and in the understanding and good will of educators and bankers is regarded as satisfactory.

The Division is hopeful that bankers and boards of education which are financing school savings will insist that efforts to conserve school savings deposits shall be made at least equal to those expended in securing them in the first instance.

Educational Foundation

THIRTY-EIGHT states, the District of Columbia and Hawaii have completed their quotas to the Educational Foundation of the American Bankers Association, J. H. Puelicher, president of the Marshall and Ilsley Bank of Milwaukee, and Chairman of the Board of Trustees of the Foundation, reported to the Philadelphia Convention.

In these states 110 loan scholarships have been allocated to higher institutions of learning. Mr. Puelicher reported that the Foundation is functioning successfully and in the manner contemplated by its sponsors when it was first established to commemorate the 50th anniversary of the Association.

As of Oct. 1, 1928, there had been received from subscriptions a total of $450,974.91, and the grand total of receipts and pledges to the Foundation is $496,910.83.

SCHOOL SAVINGS BY STATES

STATES	Number of Schools		Number Participating		Deposits		Net Savings	
	1926–27	1927–28	1926–27	1927–28	1926–27	1927–28	1926–27	1927–28
ALABAMA	31	74	7,845	34,325	$27,460.36	$133,840.39	$9,229.09	$101,804.38
ARKANSAS	7	7	2,300	2,130	6,841.17	8,110.22	2,836.18	1,519.38
CALIFORNIA	2,223	2,379	283,476	334,078	1,288,512.37	1,341,038.37	795,901.68	800,108.78
COLORADO	26	25	150	4,764	6,401.30	....	6,371.30	....
CONNECTICUT	493	651	99,136	104,806	785,721.28	817,395.42	497,231.71	433,517.04
DELAWARE	43	66	17,658	20,759	206,394.59	213,889.35	39,174.21	39,653.51
DISTRICT OF COLUMBIA	51	58	6,172	6,436	38,333.53	58,644.19	38,333.53	58,644.19
FLORIDA	29	31	15,589	16,134	93,600.79	85,844.89	18,763.05	19,632.64
GEORGIA	101	103	30,990	39,486	202,277.67	181,149.19	39,400.77	29,187.93
ILLINOIS	510	533	145,591	149,184	1,205,711.00	1,208,831.34	297,312.92	170,553.11
INDIANA	272	291	88,185	89,341	650,873.58	670,026.16	157,770.19	130,330.74
IOWA	223	223	64,510	60,286	403,495.50	430,394.04	85,178.01	84,176.67
KANSAS	70	72	20,650	10,328	111,130.62	179,200.82	44,701.85	57,701.90
KENTUCKY	205	114	47,241	25,739	234,391.38	257,294.58	38,353.65	164,806.24
MAINE	232	288	26,542	24,867	105,525.53	118,486.70	85,434.77	83,340.05
MARYLAND	91	105	39,331	42,885	128,667.95	146,248.65	90,151.39	111,318.87
MASSACHUSETTS	987	956	215,790	198,409	1,390,518.39	1,462,451.83	806,897.85	711,959.18
MICHIGAN	453	440	136,853	135,002	775,908.93	833,481.38	215,042.14	187,535.33
MINNESOTA	503	532	158,244	162,892	640,026.79	676,864.80	207,052.81	201,648.73
MISSISSIPPI	7	8	1,907	1,985	12,807.01	22,080.00	4,826.23	19,715.30
MISSOURI	139	140	57,517	53,164	303,965.43	349,363.60	93,791.89	100,686.23
MONTANA	7	8	2,414	3,077	13,714.64	17,788.75	6,225.33	8,383.42
NEBRASKA	73	70	35,257	27,595	214,005.39	242,094.42	34,922.99	27,676.27
NEVADA	....	2	400	289	492.23	551.19	**138.59**†	233.81
NEW HAMPSHIRE	61	57	2,866	3,559	13,043.43	15,169.92	9,605.84	7,561.92
NEW JERSEY	553	631	284,477	205,122	1,593,616.50	1,733,865.51	638,374.15	589,718.23
NEW YORK	1,187	1,358	660,372	861,453	3,654,388.64	4,480,045.91	2,277,277.42	2,868,216.94
NORTH CAROLINA	41	37	17,237	16,984	55,844.22	60,649.54	15,330.30	13,947.69
NORTH DAKOTA	....	....	....	....	4,703.76	....	3,082.69	....
OHIO	601	754	227,973	236,380	1,623,743.70	1,821,075.78	520,094.39	478,813.53
OKLAHOMA	56	65	18,048	17,926	136,726.51	106,682.61	103,935.57	69,798.40
OREGON	118	112	54,462	59,674	275,914.08	320,465.49	125,819.25	110,754.83
PENNSYLVANIA	1,799	2,187	499,722	569,122	4,163,098.22	4,386,564.32	1,168,943.59	897,632.78
RHODE ISLAND	315	326	84,462	102,265	940,233.00	987,982.42	190,575.07	129,261.11
SOUTH DAKOTA	51	55	9,919	14,079	64,096.84	95,406.48	43,781.92	44,324.68
TENNESSEE	86	94	35,375	37,002	207,742.67	203,235.59	42,740.28	25,157.51
TEXAS	43	101	17,474	26,129	62,910.02	245,554.47	41,970,95	199,886.00
UTAH	16	18	2,810	6,203	16,368.58	25,461.14	11,889.14	12,951.37
VERMONT	20	18	1,134	623	9,010.04	8,505.47	7,622.46	7,250.12
VIRGINIA	72	83	32,706	34,007	205,838.90	200,090.24	26,617.42	33,284.92
WASHINGTON	266	266	119,927	122,959	919,432.44	1,004,532.69	323,469.47	269,625.34
WEST VIRGINIA	162	169	40,592	42,992	202,268.02	227,130.01	67,076.49	81,066.31
WISCONSIN	347	328	85,800	75,797	591,020.90	627,650.17	120,713.98	93,005.94
TOTALS	12,678	13,835	3,742,551	3,980,237	$23,703,436.80	$26,005,138.04	$9,464,178.93	$9,476,391.32

TOTALS—UNITED STATES	Number of Schools	Number Participating	Deposits	Net Savings
1927–1928	13,835	3,980,237	$26,005,138.04	$9,476,391.32
1926–1927	12,678	3,742,551	23,703,436.80	9,464,178.93
1925–1926	11,371	3,403,746	20,469,960.88	8,770,731.05
1924–1925	10,163	2,869,497	16,961,560.72	7,779,992.55
1923–1924	9,080	2,236,326	14,991,535.40	8,556,991.27
1922–1923	6,868	1,907,851	10,631,838.69	....
1921–1922	4,785	1,295,607	5,775,122.32	....
1920–1921	3,316	802,906	4,158,050.15	....
1919–1920	2,736	462,651	2,800,301.18	....

Committees and Commissions

THE following list includes the membership in the various Committees and Commissions (excepting those of Divisions and Sections) for the ensuing year, under the new administration; the membership of the Federal and State Legislative Councils; members-at-large of the Executive Council, and the vice-presidents for territories and in foreign countries:

Administrative Committee

Craig B. Hazlewood, vice-president, Union Trust Co., Chicago, Ill., chairman.

W. F. Augustine, vice-president, National Shawmut Bank, Boston, Mass.

Taylor R. Durham, vice-president, Chattanooga Savings Bank & Trust Co., Chattanooga, Tenn.

George H. Hamilton, vice-president, Fourth National Bank, Wichita, Kan.

S. J. High, president, Peoples Bank & Trust Co., Tupelo, Miss.

Julien H. Hill, president, State-Planters Bank & Trust Co., Richmond, Va.

W. D. Longyear, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

John G. Lonsdale, president, National Bank of Commerce, St. Louis, Mo.

J. P. McKelvey, vice-president, Exchange National Bank, Pittsburgh, Pa.

A. V. Morton, vice-president, Pennsylvania Co. for Insurance on Lives & Granting Annuities, Philadelphia, Pa.

J. A. Pondrom, president, City National Bank, Dallas, Tex.

Thomas R. Preston, president, Hamilton National Bank, Chattanooga, Tenn.

E. H. Sensenich, president, West Coast National Bank, Portland, Ore.

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind.

Frank M. Totton, assistant cashier, The Chase National Bank, New York, N. Y.

Frank Warner, secretary, Iowa Bankers Association, Des Moines, Iowa.

Committee on Federal Legislation

M. R. Sturtevant, vice-president, Liberty Central Trust Co., St. Louis, Mo., chairman.

V. J. Alexander, vice-president, American National Bank, Nashville, Tenn.

J. M. Appel, president, Highland Park State Bank, Highland Park, Ill.

Robert V. Fleming, president, Riggs National Bank, Washington, D. C.

S. A. Hubbard, vice-president, Central Bank & Trust Co., Asheville, N. C.

B. G. Huntington, vice-president, Huntington National Bank, Columbus, Ohio.

Ex-Officio

Chairman Federal Legislation, National Bank Division.—A. O. Wilson, vice-president, State National Bank, St. Louis, Mo.

Chairman Federal Legislation, Savings Bank Division.—Howard Moran, vice-president, American Security & Trust Co., Washington, D. C.

Chairman Federal Legislation, State Bank Division.—W. A. Hunt, president, Citizens Bank & Trust Co., Henderson, N. C.

Chairman Federal Legislation, Trust Company Division—F. H. Fries, president Wachovia Bank & Trust Co., Winston-Salem, N. C.

Federal Legislative Council

M. R. Sturtevant, vice-president, Liberty Central Trust Co., St. Louis, Mo., chairman.

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Nevada—Charles W. Mapes, president, Washoe County Bank, Reno.
New Hampshire—Arthur L. Smythe, cashier, Franklin National Bank, Franklin.
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New Mexico—W. A. Losey, cashier, First National Bank, Hagerman.
New York—William S. Irish, president, First National Bank, Brooklyn.
North Carolina—John F. Wily, president, Fidelity Bank, Durham.
North Dakota—H. T. Graves, president, James River National Bank, Jamestown.

(Continued on page 415)

New Yardsticks for Credit

(Continued from page 334)

bility of productive work, in the making of a friend, for the credit department. Exercise criticism rationally where needed, but extend reasonable encouragement when deserved, being sure to base both on a knowledge of facts rather than offering a vague phrase as a comment.

Over-Capacitated

BEING "over-inventoried" means nothing but that the relation of sales results for any period and inventories on hand are not in the proper proportion. Any given inventory in dollars is not excessive if the subject has a properly related sales volume. If sales as divided by inventory show a ratio of 625 per cent, sales being $625 for each $100 of inventory, when the usual relationship for the industry is 600 per cent, then the inventory is reasonable no matter what its dollar size may be. This 600 per cent is taken from a study of thirty-four manufacturers of women's shoes as of about last Jan. 1. If an individual manufacturer in this line shows sales of only $400 for each $100 of inventory, he may be criticised justly as being "over-inventoried" as of that date, and the extent pointed out to him.

Just when is a company "over-built in plant?" This, or "over-capacitated," is a common phrase of criticism. In testing for this possibility I suggest that all the fixed assets be grouped together, as they are all capital assets, and then that an attempt be made to measure the reasonableness of that investment.

As any operating company must have some such fixed assets, and as these are capital assets, the relation of the net worth to their total is a significant relationship. A reasonable fraction of every dollar of net worth can safely be invested in fixed assets, leaving a fair fraction of the net worth for liquid investment in current assets. If a company's net worth be 125 per cent of its fixed assets and it is typical for that industry to find the net worth 210 per cent of the fixed assets, then the company has too much tied up in plant. This seems reasonably logical and the process of dividing the net worth by the fixed assets to get a figure for record seems better than mental reservation. This may be better appreciated perhaps when it is known that both the 125 per cent and the 210 per cent just mentioned are proper proportions as between net worth and fixed assets, but for different industries.

Laxity in Practice

FIXED assets are for fabricating or distributing purposes. This means that sales results should be in sufficient volume when compared to them. If this sales volume is not relatively high enough, then we have over-capacitation of plants.

I take it for granted that every progressive banker wishes to assist his credit department to the utmost and yet we, of the credit departments, find a certain laxity in practice that too frequently tends to hinder departmental efficiency. Those practices subject to criticism are in certain faulty methods of handling the credit inquiry by mail.

I offer three declarations, concerning the ethics of credit correspondence, which should be unquestionably observed by all bankers in seeking information by letter:

Indiscriminate revision of files, when there is no real need of information, is unnecessary, wasteful and undesirable.

Every letter of inquiry should indicate in some definite and conspicuous manner the object and scope of the inquiry.

When more than one inquiry on the same subject is sent simultaneously to banks in the same city this fact should be plainly set forth in the inquiries.

The first of these is aimed at the banker or department that believes the value of a credit file is dependent upon the weight or thickness of its folder rather than upon the quality of opinion expressed. It seems almost puerile to state that inquiry letters would be written when the inquirer has no need for information. Yet such is the reliance placed on tickler follow-up systems that I personally know of many instances in which a bank has checked annually on a name that had been reported on at least three or four such check-ups as having been through bankruptcy, liquidation and retirement from business.

Drag Net Inquiries

THE second of these declarations is meant to help give the recipient of the inquiry something to work on in preparing the reply. How can the department answer a question that is not a question? A company may be worthy of recommendation for an amount of $500, a questionable risk for $1,000 and unsound for a $2,000 credit. Inquiries couched in generalities beget general answers. Specific inquiries beget information.

The third declaration is against a credit department nuisance. The drag net inquiry method is used by some zealous seekers for information. The banker's directory is used as the indicator of sources of information. Two, three, five, ten or perhaps twenty banks in the domicile of the subject are written to by the would-be creditor. Where these banks are highly organized and in a true willingness to serve begin to search for information innumerable conflicts between investigators occur. Unnecessary and wasteful expense is incurred because it costs each investigating bank real money to render this service. It could be so easily avoided that it is almost tragic in its very ludicrousness.

Ability to Build

THERE can be no objection if any banker wishes the opinion of several bankers. Such a reasonable double or triple viewpoint is sometimes highly desirable. The confusion of thoughtless duplication can be avoided if each letter of inquiry were to state something as follows: "Information in your possession will be sufficient as we are making other inquiries." The recipient of such a letter would use such knowledge as his bank had on file plus his personal observation in making answer. Each opinion returned would be a free opinion and not, as is often now the case, the reflected opinion of the banker across the street secured by an investigator.

To be productive the credit department must have a thorough knowledge of credit facts so that it can advise with its customers. Doctors, lawyers and all other professional men charge for technical knowledge handled and used for the benefit of their clients. Credit granting is emerging from the undertaker stage of caring for sick and dying businesses through the remedial application of reconstruction processes. It is entering into the prophylactic or preventive methods stage of preconstruction. Those credit departments and loaning officers, who use their unique opportunities of acquaintance with many separate companies in single industries so as to become conscious of what is usual in any industry, will soon turn their departments into the most productive of any in the whole banking field.

I once heard a very prominent banker state that bankers produced nothing. I maintain that they can produce sound business by the intelligent application of their massed knowledge; prosperous customers by sound and fearless advice; and, most important of all perhaps, contented citizens because of their abilities to build up struggling, younger companies by leaving their problems with them. In this work the credit department should play a leading role, delivering its assistance based on digested facts and receiving unselfish cooperation from all its associates. This is the productive credit department.

Canada's Foreign Trade

CANADA'S imports and domestic exports in August virtually balanced, the former being valued at $112,757,256 and the latter at $112,493,026. Imports showed a gain of 13.5 per cent over August, 1927, and exports a gain of 19.4 per cent.

Larger purchases of iron and steel for construction and industrial purposes and of agricultural implements and automobiles expanded the import total, while heavier shipments of wheat, flour and news print paper contributed chiefly to the increase in exports.

Unit Banking and the New Trend

(*Continued from page* 314)

to an effective embargo on future branch banking on a state- or nation-wide scale.

A recent survey of the branch bank situation shows that there are now 788 banks conducting branches. Of these, 338 are member banks and 450 are non-member banks. Of the 2,989 branches, which these banks operate, over two-thirds, or 2,011 are located in the same city as the parent bank, while 978 are outside the city limits.

Branch banking is now permitted in one form or another in twenty states, and prohibited by law or regulations in the remaining twenty-eight states. California, New York and Ohio, in the order named, are the most highly developed branch bank states, and there is no denying the fact that the general attitude toward branch banking is becoming more favorable even in those states where a short time ago a mere discussion of the subject was anathema to the ears of bankers and legislators alike.

In fact, so gradually are the prejudices against this system diminishing that one is almost tempted to paraphrase Pope's "Essay on Man" by substituting "branch banking" for "vice," so that it would read:

> "Branch Banking" is a monster of such frightful mien,
> That to be hated needs but to be seen,
> But, seen too oft, familiar with her face,
> We first endure, then pity, then embrace.

I have no doubt that a majority of American bankers is just as strongly as ever in favor of the preservation of our unit banking system, and has no desire to "embrace" any substitute therefor. But if that be so, we must be prepared to protect our independent banks by concerted action, not only against branch banking itself, but also against still another and equally dangerous foe, namely, the "chain" banking system.

Chain Banking

AFTER the eighteenth amendment to the Federal Reserve Act had been passed, most of the friends of the unit banking system were lulled into a sense of security because of their belief that definite bounds had at last been put upon the extension of branch banking. But those who are striving for concentration of financial power did not rest when they saw that the road to nation-wide branch banking had been effectively blocked, and they found in "chain banking" a detour which led them with comparatively little extra trouble to the same goal.

Chain banking has all of the faults but by no means all of the merits of branch banking. It maintains for its banks the outward appearance of independence and local control, but it really concentrates financial power in the hands of individuals or the holding corporation who necessarily dictate the policy of every member of the chain, and therefore virtually makes each unit a branch of the system. But while under a branch banking system each branch is at least as strong as its supervised parent institution, this is not necessarily true of the chain system, and in the latter case the old saying unquestionably applies that "no chain is stronger than its weakest link."

Holding Companies

SEVERAL states have attempted to legislate against it by putting certain restrictions upon the loans which banks may make, based upon the stock of other banks. It is doubtful, however, that such legislation is really effective because while formerly many chain banking systems were built up through the loaning of funds by one bank to another to provide capital for the next bank, the more recent and modern form of building up a chain of banks is to have a holding corporation. This corporation purchases the majority of the stock of a group of banks, whose policy and personnel it then controls, even though the holding company itself is usually not subject to any sort of banking supervision or legislative restraint.

The subject is an intricate one and it is really difficult to see how either congress or state legislatures can well devise laws which will effectively halt the onward march of chain banking, especially as almost any sort of legislation which attempts to curb chain banks and holding corporations would also seriously affect many other forms of investment.

From "chain" banking to "branch" banking is but a short and logical step. We are likely to see in the future even greater activity on the part of holding companies and investment trusts in the acquisition of banks in various strategic locations. This will in turn be but the prelude to additional efforts to obtain legislation to further liberalize branch banking practice, and if successful, it will be a simple matter to convert the various unit banks controlled by the chain into actual branches.

Under the chain banking system it is as easy to acquire control of a state bank as it is of a national bank, and the problem is, therefore, both a state and a national one. In fact, there are many who feel that the problem has reached such proportions that the Federal government would be justified in assuming some sort of supervision over all banking institutions or holding companies doing business outside of the state in which they are chartered and located. But whatever may be the right remedy we shall not solve the problem by holding heated debates on the subject while the growth and development of both branch and chain banking go merrily on. We must look deeper for the cause of the problem and try to find the remedy.

The favorite argument used by the advocates of branch or chain banking is that the unit banking system has shown its weakness in recent years by the large number of such banks which have failed. It is not pleasant to have our faults pointed out to us in this way, but we must, if we are honest with ourselves, admit that this particular criticism is justified and that the record of our unit banking system for the past nine years has not been one to be proud of.

During the fiscal years from June 30, 1920 to 1928, a total of 4,458 state, private and national banks have closed their doors. The advocates of branch banking would have you believe that no such catastrophy would have been possible if branch banking had been in vogue here as it is in Canada and elsewhere.

But let us examine the facts. Nearly all of the failed banks were very small institutions, a large percentage of them with a capital of less than $25,000, and many of them were located in over-banked agricultural districts depending largely on one particular crop. Most of them had been a factor in the development of their respective communities and served their clients well, but their executives overlooked the absolute need for diversification even in a small institution, and when as a result of the aftermath of the war, values of both land and products tumbled at an almost unprecedented rate, they had no secondary reserves to fall back on, nor any liquid assets with which to tide over the emergency. The inevitable result was the wholesale closing of these unit banks.

To the Rescue

HOWEVER, there is no merit in the contention that branch banking would be an absolute protection against such unsound banking and consequent failures. It is difficult to get separate statistics in the matter of failed unit banks and failed banks which operated branches, but it has been estimated that included in the number of banks which have failed in the past fifteen years there have been at least forty-five institutions which did operate branches, and the chief cause for their trouble was just about the same as in the case of the small unit banks, namely, incompetent management, excessive credits and frozen loans. Over-expansion and unsound banking practices can occur under one system as well as under the other, and when failures do come in branch banks losses are usually extremely heavy and the results on the communities affected correspondingly disastrous.

We have but to turn to the most frequently quoted example of successful branch banking, our neighbor in Canada, to find that unsatisfactory economic con-

(*Continued on page* 376)

Dawn of a New Economic Era

(*Continued from page* 288)

prime commercial paper crosses the rate of the Standard 60 high-grade bonds. The last time the commercial paper rate fell below the bond yield was in December of 1923. If typical high-grade bonds had been purchased at that time, and held until February of this year, when the yields next crossed, the yield on the bonds would have been at the rate of over 5 per cent during the four-year period, and the appreciation in their price would have been nearly 20 per cent. If the proceeds had then been put into short-time paper or call loans the yields so far this year would have been of the sort you know all about, and a shrinkage of about 3 per cent in the bond prices so far would have been avoided.

Another method for conveniently following the yields of high-grade bonds is to look in the *Wall Street Journal* about the middle of each month for their index of forty bonds. This index is simply the bond yield capitalized at 4 per cent, so that the easy way to find out what the yield was is to divide the number 400 by their index number. This will give the bond yield figure. The commercial paper rates may be taken from the same source.

A New Economic Era

THE point that I have been attempting to make in all this discussion is that we appear to be entering a new economic era in which business can no longer depend on having the stimulus of successive large increases in the national credit supply due to heavy imports of gold. We appear to be leaving behind us the wonderful golden age that we have enjoyed most of the time since the depression of 1921, during which prosperity has promised to be perpetual, the old-fashioned business cycles with their recurrent booms and depressions have been in abeyance, and the trend of stock prices has been almost constantly upward.

We may look forward to the longer future with confidence, for we still have a larger gold supply in proportion to our needs than has any other country, and we have a central banking system that is probably more effective and efficient than that of any other country. A period of readjustment to new conditions probably lies ahead, and it may be expected to present important difficulties, but we shall surmount them. The great rewards of business and banking during the next decade will probably go to the plodders rather than to the plotters, to the calculators instead of to the speculators, to the thrifty and not to the shifty. It may even be that the hour of the old-fashioned virtues in business life is about to strike.

The warnings printed in the Protective Section of the JOURNAL may save your bank from an embarrassing loss.

Call Loans

(*Continued from page* 293)

tection of gold, and the volume of credit, is such as to tend to secrecy.

Selfish Purposes

IT is a well demonstrated fact that advance information in regard to a change of policy on the part of a central bank might defeat the very purpose for which the change was made. The wits of those who are engaged in speculative enterprises today are so keen and their facilities for information and its utilization so perfect that any leak of inside information, particularly that pertaining to so vital a subject as Federal Reserve policy, might be used to their own selfish purposes, thus tending to defeat the aim of the bank.

The effect of the utilization of any one of these three important powers by the Federal Reserve management might be entirely destroyed and their usefulness of no avail if the public were appraised in advance of the contemplated action.

I am quite satisfied that no specific further direction should be given in the law to the Federal Reserve management on the subject of stabilization. I am impressed, however, with the fact that if the system is to run successfully and function fully to meet the needs of the public that centralized and intelligent direction is absolutely essential, and it is extremely important also that the people of this country should have complete confidence in such management and that the knowledge of the daily operations of the system be kept inviolate.

Profitable Banking

(*Continued from page* 296)

contains two or three counties known as bi-county or tri-county clearinghouses. On the other hand, it is not necessary to include a large area or a large number of banks in one of these county organizations. We have communities in which one bank is enforcing the service charges, while its neighbors do not enforce any of the new rules. Situations of this kind have produced surprising results.

The practical demonstration has shown that all of the sorry accounts in town drift quickly out of the bank that charges for its service and into the bank that makes no charge. In more than one case where dissension previously existed this has been the most powerful factor in effecting concert of action.

Fortifying the Banks

IN reaching the present degree of organization in Georgia it may be interesting to know the exact method pursued from the start. First, we laid out the state in eighteen zones, with an average of about nine counties to the zone. Each zone was put under the direction of a zone chairman, and each

county was put under a county chairman. Beginning in September, 1926, zone meetings were held in sequence as rapidly as possible. These meetings took place as a rule at the supper table at six o'clock in the evening, which allowed every banker in the zone sufficient time to drive to the meeting place after his bank closed and to get home before late bed time. The meetings not only inspired county organization but possessed great value in many other respects through the personal contacts that resulted.

Our progess has probably been more rapid than it would have been under less pressing circumstances. In the summer of 1926, eighty-seven banks closed in one week and over 100 went out of business in one single quarter. We were ready to try anything once and the success of the experiment has been most gratifying. We feel that we are on the way to fortifying our banks solidly with these new sources of income. It is not our purpose to stop, once that has been accomplished. Of equal importance with providing additional revenues are the means and expedients to avoid losses.

Among the ten principles already outlined you recall the recommendation of credit bureaus for the interchange of information between banks to forestall duplicate loans, multiple loans and parallel lines of credit. This rule has been the most difficult of all to put in effect. The most practical plan for setting up credit bureaus is known as the Nebraska Bankers District Credit Clearing House.

Avoids Improper Use

WE hope to see the day in Georgia when the mutual trust and confidence of our bankers will enable us to perfect organizations of that kind. The idea is to fix an exact district, allowing the total number of these districts to be equal to the total number of bank examiners in the state affected. One examiner is permanently assigned to a given district. Each bank examiner under this plan serves also as secretary or manager of his district credit clearing house. We believe the plan to possess many advantages in controlling duplicate loans, multiple loans and parallel lines of credit.

Particularly does this plan avoid the improper use of credit information. It limits the possession of such information to a small group already in possession of the same information as to state banks which predominate in number. Participation by national banks and by private banks has to be on a voluntary basis, but we anticipate no material difficulties from this source. We feel that with this expedient to improve the quality of our loans and to avoid losses, in addition to the rules first described for improving bank income, Georgia banks will be placed on the best possible basis for public security plus revenues in keeping with the capital invested and management employed.

Savings Bank Division

(*Continued from page* 301)

wise spending of money and free consultation regarding investments are being stressed particularly. Surely it is necessary to give serious thought to this matter, particularly in view of the present keen interest in the stock market on the part of persons of small means.

No one factor is doing more to keep our bankers up-to-date than the American Institute of Banking, and the savings bankers generally are giving the institute the loyal support which it so richly deserves.

School Savings

IN addition to the report on methods of computing interest, the division heard addresses by Harold J. Stonier, Educational Director of the American Institute of Banking (printed elsewhere), who discussed the answering of administrative problems, and by Charles M. Mylander, Secretary of the Ohio Bankers Association (printed elsewhere), who analyzed the pressing problem of the taxation of banks as compared with the taxation of competing moneyed capital.

The history of school savings and its expansion in this country was traced by W. Espey Albig, Deputy Manager of the Savings Bank Division. (His report is printed elsewhere.) He introduced one of the pioneers of the school savings movement in the United States, Mrs. Sarah Louisa Oberholzer, of Philadelphia, who was presented with a basket of flowers.

"I am very glad," Mrs. Oberholzer said, "to be with the bankers today. It has been for me a great pleasure to work for the establishment of school savings banks in this country, and now it is turned over to the bankers, though I am still doing some work and do not think I am as old as I seem. I am doing work in different countries, especially South America, South Africa, and some in our own country. I thank you most kindly for your reception today."

New Officers

TAYLOR R. DURHAM, Vice-President of the Chattanooga Savings Bank & Trust Co. of Chattanooga, Tenn., was elected President of the Savings Bank Division and Austin McLanahan, President of the Savings Bank of Baltimore, Baltimore, Md., was named Vice-President of the Division. The following members of the Executive Committee were named: For term of one year, Col. J. C. Persons, President of the American Traders National Bank of Birmingham, Ala.; for a term of three years, Jay Morrison, Vice-President of the Washington Mutual Savings Bank of Seattle, Wash.; Myron F. Converse, President of the Worcester Five-Cent Savings Bank, Worcester, Mass.; and Howard Whipple, Executive Vice-President of the United Security Bank & Trust Co. of San Francisco.

Unit Banking

(Continued from page 370)

ditions and poor management will cause big branch institutions to fail as well as the small unit banks. The failure of the Home Bank, with seventy-eight branches, and the practical failure and forced absorption of the Merchants Bank, with its 400 branches, both occurred within the same period covered by the American statistics previously quoted. And it is not so many years before when the Province of Quebec had to come to the rescue with a $15,000,000 subscription to assist one of its large banks to take over another crippled bank which had many branches.

A New Spirit

GOOD banking is not necessarily a matter of size. A properly conducted small country bank can be as safe as a large city institution with branches. Success in the banking field depends on good management, whether the unit be large or small. It cannot be denied, of course, that larger institutions can usually employ more experienced bank officials than can the average small unit bank. They also have on the whole, better facilities for standardizing their business, keeping themselves properly informed, and thus escaping many losses resulting from actual operations as well as from poor credits.

The time has passed when a banker can afford to "go it alone" and ignore what his neighbors around him are doing. Individualism in banking must in a measure give way to cooperation. We need to develop a new spirit of mutual respect and confidence in each other, and to realize that only through combined efforts and concerted action can we hope to meet the changed conditions and avoid serious financial troubles in the future.

The unit system is on trial and must vindicate itself. It depends on the unit bankers themselves whether the system shall continue to live or be ultimately swept away by the rising tide of branch and chain banking.

It behooves us to put our house in order and to take the initiative in correcting the evils from which the unit banks have suffered, for the final test will be what system really renders the best service. In other words, it will be in the end a question of the survival of the fittest. If our banks are properly and profitably run by experienced executives, if we observe sound banking principles, if we get together and formulate effective plans of cooperation, and if public interest and public welfare are always our prime consideration, there can be no doubt of the ultimate outcome. We have come to the crossroads of our financial future. The choice lies between improved banking practices among the unit banks or ultimate absorption by a centralized system. It lies between financial independence and monopolistic control. The answer is in the hands of the bankers of the country, and I believe that our unit banking system will live.

State Taxation

(*Continued from page* 330)

stockholders may be taxed to them separately. So, also, if C has a thousand dollars and D has nothing, C is taxed on his thousand dollars, but D pays no tax. If C lends his thousand dollars to D, D may be taxed on the thousand dollars and C on the obligation of D to repay him the thousand dollars, and the government may collect taxes on two thousand dollars when only one exists.

Double taxation effected through the inclusion in the assessment roll of both tangible property and intangible property representing rights in the same tangible property is constitutional only in the case of stock in corporations and debts; but the attempt to enforce double taxation even in such cases has everywhere broken down, because it is now consciously or unconsciously recognized by almost everyone that such double taxation, though it may be constitutional, is highly unjust.

As a result, twenty-one states, it is said, have definitely abandoned the attempt to tax intangible property at the same rate as tangible property, and in the states in which the attempt has not been openly abandoned, the laws which require the inclusion of intangible property in the general assessment roll have been almost everywhere nullified by common consent.

No Ground of Complaint

INTANGIBLE property in the states with reasonably modern and well-thought-out tax systems does not escape taxation altogether, but pays a tax based not upon the theory that such property should be taxed as if it were tangible, but upon the ground that the owner of such property should pay a reasonable charge for the privilege and convenience of having his interest in or against tangible property recognized and protected by law and represented if he so desires by a paper writing, which the law will treat as symbolic of his interest and which may be assigned or pledged as if it were the property itself. It is on this ground that a tax on intangibles at a moderate rate has proved to be acceptable both to the taxpayer and to the taxing authorities, as in the case of the three, four or five mill taxes levied on intangibles in some of the states and the taxes on intangibles measured by income in some of the others.

An individual who happened to be engaged in the banking business should therefore pay a tax on his real estate at the same rate as other real estate is taxed; he would have no just ground of complaint if the tangible personal property used in his business—the equipment of his banking house—were taxed at the same rate as the tangible personal property of others; but he should not and would not anywhere be compelled to pay a tax on his intangible property—the bonds, notes, and credits which form the greatest part of his assets—at the same rate as the tax on

real estate, because the universal experience of mankind has shown that real estate and intangible property are not comparable objects of taxation, for the reasons already set forth, and nowhere in the United States are they actually taxed on the same basis.

Three Main Features

IF the bank were owned by a partnership, the same principle would apply whether the tax were imposed upon the partnership or upon the interests of the individual partners; and if the bank were owned by a corporation, no just cause for any distinction would appear. The intangible assets of an incorporated bank ought not to be taxed at the same rate as real estate, whether the tax is assessed on the bank or the stockholders are taxed on their respective interests in such assets through a tax on their shares of stock.

But does it follow that, if the intangible assets of a bank cannot properly be taxed at the same rate as real estate, they must necessarily be taxed at the almost nominal rate at which intangible assets of a mere passive investor are taxed? Such a conclusion would doubtless be of at least great temporary advantage to the banks, but if it is not founded on unassailable principles, to insist upon it would be futile as well as unwise.

There is, however, in my opinion a third measure of taxation which can be applied to banks with justice both to them and to the taxing authorities. All students of taxation now recognize that a modern taxing system should comprise three main features:

(1) A tax on real estate and tangible personal property.

(2) A tax on the intangible assets of a passive investor, either measured by income or by a low flat rate on capital.

(3) A tax on business.

Almost every modern taxing system includes these three features, and in any event mercantile, manufacturing and other corporations engaged in business are taxed on some basis, whether it be on income, corporate excess, franchise, capital, or gross receipts, which tax is additional to the tax on their real estate, and is greater in amount than the tax actually imposed on the investments of passive investors of equal value.

The Logical Comparative

THOUGH a bank's assets may differ in character from those of a mercantile or manufacturing corporation, a bank, like such corporations, is not a passive investor, but is engaged in business for profit, and after meeting the same obligations on its tangible property as all other property owners, ought not to be taxed more, and cannot justly insist upon being taxed less than mercantile, manufacturing, or other business corporations doing business in the same state. The logical comparative for national bank taxation is neither the tax on real estate on the one hand nor the tax on intangibles in the hands of passive investors on the other, but is the

tax on corporations which, like a bank, are actively engaged in business for profit.

Does the present Federal statute permit taxation upon such a basis? The proponents of change insist that the present statute in effect limits the taxation of banks to the same rate as intangibles in the hands of passive investors, and, exasperated by this too stringent limitation, demand that the statute be radically rewritten. But are they not too hasty in their conclusion? The Federal statute (Sec. 5219) authorizes four separate and alternative methods of taxing national banks.

(1) A tax upon the shares, but not at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens coming into competition with the business of national banks.

Other Methods

THIS is the time-honored provision, with amendments which have not changed its meaning. I confess that many of us at one time thought that by imposing a like tax upon other moneyed capital in the hands of individual citizens coming into competition with the business of national banks, it was possible to impose a tax upon bank shares at a higher rate than upon ordinary intangibles in the hands of the passive investor; but careful consideration of the subject and a study of the individual cases to which such a tax applies have forced the conclusion that the line between those investments which come into competition with national banks and those which do not is impossible to draw, and that if this were the only method of taxation authorized by Congress, either the tax on bank shares would have to be reduced to the same rate as the tax on passive investments, or the tax on such investments would have to be raised to a point higher than careful students of taxation deem wise.

The next two methods of taxing national banks authorized by Congress are as follows:

(2) Income from dividends on national bank stock may be included in the individual income tax of the stockholder, but not at a greater rate than is assessed upon other moneyed capital.

(3) The bank may be taxed upon its net income.

The objections raised to these two methods are that they could not be used except in states imposing an income tax, and that in many of the states the legislature has no power to impose an income tax. There are other objections, but these are sufficient to make it unwise to urge a method of taxing national banks under either of these clauses of the statute. The fourth and last method is as follows:

(4) A tax upon national banks according to or measured by their net income, which may include income from all sources, at a rate not higher than the rate assessed upon other financial corporations nor higher than the highest of the rates assessed by the taxing state upon mercantile, manufacturing and business corporations doing business within its limits.

May Levy Excise Tax

THIS method, it is believed, may be adopted by all, or substantially all, of the states without upsetting their ex-

isting methods of taxing mercantile, manufacturing, and business corporations or their policies of low taxation of real estate mortgages and other investments in the hands of passive investors.

The tax contemplated by this clause is obviously not a direct tax and not an income tax, but an excise. An excise is a tax upon the performance of an act, the enjoyment of a privilege or the engaging in an occupation, and since Congress has expressly permitted it, the states may, so far as the national constitution is concerned, impose an excise upon the occupation of national banking. So far as the state constitutions are concerned, though many of them do not permit income taxes, all of them permit excise taxes, as is evidenced by the fact that such typical excises as the inheritance tax and the gasoline tax are or have been in force in substantially all of the states.

An excise tax may be graded by any reasonable measure, and net income is a reasonable and a not uncommon measure. An excise tax measured by income is not an income tax, and income which the state could not constitutionally tax may be used as the measure of an excise tax. It is clear that every state may levy an excise on national banks measured by their income from all sources, tax-exempt as well as taxable.

No Injustice

BUT, it is said, must not a state, to avail itself of this form of taxation, levy a like tax on mercantile, manufacturing, and business corporations? Would it not require many of the states to discard their time-honored methods of taxing other corporations as a price for using this method of taxing national banks? It does not seem to me that any such change in the taxation of other corporations is necessary. The Act of Congress does not require that other corporations be assessed in the same manner as national banks; all that it requires is that the rate upon national banks be no greater than upon other corporations. If, for example, it could be shown that the mercantile, manufacturing and business corporations as a group, in any one year, paid taxes of one sort or another (exclusive of taxes on real estate) to the state or its political subdivisions which aggregated 6 per cent of their net income from all sources, an excise tax upon national banks, measured by 6 per cent of their respective net incomes from all sources, would meet all the requirements imposed either by the Federal or the state constitution or by the Act of Congress. I have used 6 per cent merely by way of illustration; if the business corporations pay more, the banks should also pay more; if less, the banks should pay less. It has already been demonstrated that such a measure of the tax is just and equitable, and in accordance with sound principles of taxation; that more would be unfair to the banks, and that less would be unfair to the public.

I could enlarge upon the legality, the practicability, and the justice of this

method of taxing national banks and cite court decisions supporting my contention, but suffice it to say that such a system is in force in Massachusetts and has given general satisfaction, and that the legal argument outlined above has been studied and approved by able constitutional lawyers from other states.

It thus appears that the existing Act of Congress affords ample means for the states to impose just and adequate taxes on national banks, and they can oppose any amendment of the law with the assurance that it is no inequitable privilege which they are seeking to maintain, and it is no hardship or injustice which they are seeking to impose upon other members of the taxpaying public.

Management of Trust Services

(*Continued from page* 346)

future welfare of the family. When a man walks into your trust company or bank and names your institution as his executor and trustee he is placing the greatest confidence in your institution that one man can place in another. He is placing his family's future welfare within your keeping. As far as possible you are to fill his place in his relationship to his family and his beneficiaries. You are not only legally bound to carry out his wishes as designated in his will, but you are morally bound to go even further and perform many duties for his widow and his children that you may not be legally bound to do.

Often a man's widow and children have had no previous business training or experience. High-powered promotors and questionable business representatives may attempt to persuade his family to invest in "blue-sky securities" or other transactions that are not based upon sound business principles. Relatives and friends may use influence to borrow funds left to the widow and children, which should only be invested in sound commercial securities for their future use and benefit. The members of the family will look to you for business advice and your counsel and judgment will be accepted by them in their future business transactions. Trust company management must recognize this moral responsibility and live up to it.

As far as the plans of men may be said to be perfect, the corporate fiduciary comes nearer realizing the ideal in this relationship than any other system yet devised. The principal objection to corporate fiduciary services in the past has been that a corporation does not have a soul, does not recognize its moral responsibilities and does not fill the place that a personal executor or trustee filled in the past. The only way that the mind of the public can be relieved of this delusion is for every fiduciary institution in the country to recognize to its fullest extent the moral responsibilities placed upon it in the management of its estates and trusts.

Trust company management is responsible for the standing of the company

in the community. The company may be known as an active, progressive agency for good in the community, or, on the contrary, it may have the reputation of being non-progressive, ultra-conservative, pessimistic, and controlled by ideas that would be designated by the modern generation as "old-fogyism." The good will of the community is one of a company's big assets, and can only be secured by active, intelligent cooperation with other lines of business, by cooperation with the lawyers and the life insurance men, by assuming responsibilities in civic organizations and other community welfare activities, and by always impressing upon the public the high business ideals for which the institution stands. The creation of this good will for a company is one of the big responsibilities imposed upon trust company management.

Do not accept trusts that are inequitable, unjust, or which will work a hardship on others, as this will always result in dissatisfaction, discontent and prejudice against an institution. People do not shout one's virtues from the housetops, but if they are dissatisfied with one's short-comings they will most certainly make it known to the world.

The reputation of a trust company should be jealously guarded by its management. Employees should be impressed with the idea that they are representatives of the trust company at all times; that their conduct and demeanor, even when away from the trust company, will reflect either for good or for evil, and no one should be permitted to represent the trust company as an executive or employee that does not at all times reflect credit and honor upon the institution.

Growth of Resources

TRUST companies have doubled their resources since 1918. The first trust company was organized in 1822. Therefore, the growth of trust companies has been as great in the last ten years as it had been in the previous ninety-six years, and, in addition thereto, the vast resources of national banks doing a fiduciary business must be added to these grand totals. After the war, as never before, the American people realized the necessity of preserving the wealth and the estates they had created. When an agency for the preservation of this vast wealth became an urgent necessity, trust companies began to be recognized as the best medium for this service. Although the real functions of trust companies were little appreciated before 1918, the influence of these companies is felt in every channel of business activity in our country today.

What has this to do with the responsibility of trust company management? Just this. We may be living up to the responsibilities imposed by law; we may operate our companies upon a sound financial basis; we may even obey the Golden Rule and live up to our moral responsibilities, but we still owe the country more. Our position of trust, our far-reaching influence and great fi-

nancial resources demand that we be progressive and active; that we educate the uninformed and the misinformed as to the services that we are rendering. The field for trust company activities has hardly been touched.

The probate records in the most highly developed counties in any state will show that not more than 50 per cent of the persons dying and leaving estates have executed wills and that a far smaller per cent have taken advantage of trust company services. Consider the possibilities that we have in conserving the vast life insurance estates and ask yourself and your company this question: "Are we living up to our responsibilities; are we presenting to the public in the proper way the modern method of estate preservation?"

Do not falter in this course if you meet with disappointment. Do not become discouraged. Nothing has ever been accomplished without overcoming opposition. Every great progressive undertaking, every great discovery and invention has encountered those who tried to defeat and destroy. So it has been with trust services. They have been misunderstood, misinterpreted, maligned and great stumbling blocks have been placed in their path of progress. Notwithstanding all these criticisms, objections and misrepresentations, trust companies have continued to advance because they are the development of modern, scientific business methods.

Founded on an intelligent understanding of the public they must serve, grounded in experience and flavored with a wise and comprehensive sympathy for those with whom they come in contact, the trust companies and banks with trust powers have gathered their strength from the faith and confidence reposed in them by the public. Trust executives must put their best thought and effort into the management of these institutions in order that they may lead in the march of economic and financial development of America. This is their responsibility.

Clarifying Trust Functions

(*Continued from page* 350)

stock or other obligations of "investment trusts" to men of known honesty, ability and sound financial judgment; to require complete statements covering the plans of operation; to know the manner in which it is proposed to buy, sell, exchange and hold securities and the manner in which funds obtained from the people will be handled; to be informed as to the scope of operations and how those in control will analyze, select and continue to make investments in good securities; to require the management to pay in a part of the capital stock; to be satisfied that salaries of managers and expenses shall be reasonable in amount; that proper reserves will be set up; that excess commissions

will not be paid for the sale of stock or certificates evidencing a beneficial interest; that there shall be a diversification in securities of recognized value; that there shall be a limit on unsecured indebtedness; that periodical statements prepared by a certified public accountant will be filed with the State Corporation Commissioner; that periodical reports to stockholders and holders of certificates of beneficial interests, covering securities owned, will be rendered, and that the word "trust" shall not be used in misleading the public.

The Inherent Right

THE commissioner has expressed a willingness to alter or amend the regulations from time to time as experience may show to be desirable and for the public good. The regulations referred to appear to assure, as nearly as possible at this period in the history of "investment trusts" organized in California, a high degree of fundamental management at the outset. In effect, they should keep out promoters of doubtful standing and questionable purpose.

Regulations are also in effect in the state of Utah applying specifically to "investment trusts."

It would seem inadvisable to make such regulations, or similar ones, a matter of statutory law at this time, our experiences being too new. Furthermore, it does not appear to be possible to legislate wisdom into the minds of the people in the making of investments, nor can legislation in any form assure complete safety for one's funds, nor profits on investments. On final analysis, an investor has the inherent right to exercise his judgment in selecting his investments or speculations; in joining others in an investment group or in placing his funds in the hands of others for investment purposes. Advice in these matters is available to responsible people, both experienced and inexperienced, through banks or other reliable agencies whose knowledge of handling funds is usually such as to furnish proper guidance.

True Test to Come

FOR the protection of the public, our Los Angeles committee advised those who may be contemplating the purchase of shares, certificates, or other obligations issued by investment trusts to make certain inquiries on their own account or through the cooperation of reliable and experienced agencies such as those just mentioned. Their investigations should cover:

1. An analysis of the financial structure of the group, company, or corporation operating the "investment trust."

2. The character of the "investment trust"—whether of the fixed, semi-discretionary, or discretionary type.

3. The amount of capital; the percentage of profit taken by the management; the rate of commission paid for sale of securities.

4. The character of investments already made or to be made; how investors are protected against the purchase by the management of indigestible securities and securities of doubtful value—in other words, see that the investment standards of the management are well defined.

5. Whether or not copies of a certified public accountant's audits of financial condition and securities purchased will be furnished to investors at stated intervals.

6. And the inquiry should by all means cover the antecedents, character, responsibility and investment experience of the management, for the successful operation of an investment organization depends as much upon the character, purpose, and investment experience of the managers, as upon the conditions prevailing and to prevail in the investment market.

In a rising market, such as we experienced for many months, it was comparatively easy, even for inexperienced investors, to reap profits.

The true test of the efficiency, dependability, and profitability of the so-called investment trusts in the United States will come when and if we pass through a prolonged period of recession in the prices of stocks and other securities of the character purchased by investment organizations.

Interdictive Action

NO amount of legislation can foresee the future nor relieve investors from the exercise of those ordinary precautions which have been recognized for many years as necessary and essential to the safe placing of funds for investment purposes. It would therefore be a fallacy to attempt to create by specific legal enactment a guardianship for the unwise or inexperienced investor. No law can assure absolute safety and profit for investors as individuals or as stockholders or participants in investment companies.

But to my mind the question of general legislation or regulation is exceeded in importance by the pressing problem of finding ways and means—either through education or legislation, or both—to differentiate in the mind of the public between the functions of these so-called investment trusts and the functions of true trust companies and trust departments of banks, and we include individual trustees, all amenable to the laws covering the investment of trust funds.

And unless we are going to go back fifty years or more and do over again our job of clarifying trust functions in the public mind, I do not know how else this differentiation can be effected than by interdictive action to prevent the use of the word "trust" itself in the title, designation or descriptive literature by any organizations except those which legally qualify to conduct a trust or fiduciary business.

Banks and trust companies continuously show a fine spirit of cooperation. Innumerable services are rendered the public for which no compensation is received, and there is nothing of selfishness displayed when we move to curb the unbridled use of a title or word which is known to be particularly descriptive of one of our inviolable functions which we, by strict adherence to law and ethics—through long and patient effort—have placed at the pinnacle of veneration in the public mind.

International Newsreel Photo.

American girl's face adorns new Irish bank notes. Lady Lavery, wife of Sir John Lavery, who has placed the head of his wife, who was Hazel Martyn of New York, on the new Irish bank notes

Modern Tendencies

(Continued from page 353)

somber warnings of death, but, rather, it is sober appeals to reason. Wills are being disassociated from depressing thoughts of death-beds, shrouds and graves and are being associated with inspiring thoughts of provision for and the protection of one's loved ones. Men, acting while in the full possession of all their faculties, are making well-considered wills, expressions of their best judgment as to the needs and of their tenderest solicitude for the welfare of their beneficiaries.

Placing the Purse-Strings

THE fourth tendency in modern wills is to treat the family as a unit and preservation of home life as a primary concern of the testator. Until recently, in the distribution of an estate, members of the family were regarded each as a unit—the wife the same as the children.

The first evidence of the tendency in modern wills to regard the family as the unit is the provisions being made for the living expenses of the family during the period of settling the estate. In time past this has been, perhaps, the most neglected feature of wills; it is still too much neglected; but now there is a manifest disposition to provide definitely for the family during the interval between the death of the testator and the final account of the executor.

The second evidence in this respect is the provisions now being made for a family home. In few of the older wills is the home treated any wise differently from other real estate; but in many of the modern wills careful and detailed provisions are being made for a family home. The most popular way, it seems,

is to leave the residence in trust, to be retained as a family home so long as the family may desire to occupy it, with full power of sale or substitution to meet the demand for changes that come in the life of every family. The third evidence is the provisions being made for the maintenance of the home support of the family and education of the children by placing the purse-strings in the hands of the surviving head of the family—normally the mother—thereby enabling her to provide for each member according to his needs.

Greater Powers

THE fifth tendency in modern wills is to give trustees wider latitude in distributions to or for beneficiaries. In the older wills, even if trusts were created, the trustee was usually given inelastic authority to make distributions. The modern way, and in most cases, the better way, is to give the trustee wide latitude in withholding or anticipating income, in encroaching upon principal to accomplish what appears to be best for the beneficiaries, and to terminate or continue the trust according as the habits of the beneficiaries seem to justify.

The sixth tendency in modern wills, akin to the fifth, is to give trust companies and banks, as executor and trustee, more powers, and to set them forth in the will, rather than leave them to implication. Experience has taught trust officers what powers their companies need properly to settle estates and administer trusts. The growing comity between lawyers and trust officers already mentioned has opened the way for the latter to have written into wills definite bestowals of the principal powers they need.

Gifts to Charity

IN many of the older wills, appointment of the executor and trustee was stated in a single sentence, and the powers were limited to those granted by statutes as court decisions. In modern wills, on the other hand, the statement of the expressed powers of the executor and trustee often covers two full pages or more. The following is a bare list, without elaboration, of the principal powers specifically granted in one modern will:

To sell real estate and personal property publicly or privately, for cash or on time, without an order of court and without the purchaser being required to see to the application of the proceeds:

To carry on any business in which the testator was engaged or financially interested at the time of his death, and even to put new capital into it at the risk of the estate;

To participate in plans of reorganizing and refinancing corporations in which the estates own stocks or bonds;

To compromise, adjust and settle claims in favor of or against the estate;

To retain original investments and to make new investments in securities even though not approved by statute for the investment of trust funds;

To renew loans and make new loans by pledging the assets of the estate;

To determine what is principal and what income and against which to charge expense items;

In general, to do any and all things with respect to the properties of the estate that the executor or trustee could do if it were the beneficial owners.

The seventh tendency is to pay more attention to the terms and conditions of gifts to charity. I do not say that more and larger gifts to charity are being made now than formerly, though that must be the case. In one-third of the wills I have recently analyzed there are gifts to charity ranging in amounts from a few dollars to many millions. I am directing attention to the fact that testators are less and less inclined to make gifts to charity and close their eyes to the consequences. More and more they are devoting their best thought to the terms and conditions of their gifts.

This wholesome tendency is to be credited to a large degree to the activities of promoters of community trusts in sixty-odd American cities. The literature issued by these agencies has served to convince people of the positive harm that may come of unplanned or illy planned gifts to charity, of the incalculable good that is being done by well-planned gifts, and of the unique advantages offered by community trusts for safeguarding and administering gifts to charity.

Each of these seven tendencies is traceable in a measure to the influence of the trust companies of the United States. The community trust just mentioned is itself dependent for its successful operation upon trust companies and banks. Since they are creating or certainly encouraging tendencies in modern wills—these I have mentioned and others as well—the responsibility upon them is all the greater to make sure that they train the tender sprout to shoot in the right direction.

At one of the sessions of an international convention of college students in Nashville, Tenn., in 1906, inspirational messages from many parts of the world were read. The one that impressed me most and the only one that has lingered in my memory all these twenty-two years was a cablegram from a group in Japan which read as follows: "Japan leading the Orient. But whither?"

The question, "But whither?" is especially applicable to the trust companies of the United States. During the past century they have achieved a position of leadership. Today they are leading the thought of America on wills. But whither? So far, we believe that they have been leading and are still leading consistently towards better wills only—better legally, better administratively, better socially. The one danger that glimmers in the offing is that in their eagerness to secure appointments under wills they may stress too much the number and too little the quality of wills in which they are named. With their leadership thus accepted, they have opportunity during the next century, by cultivating the tendencies I have suggested, firmly to establish in this country a sensitive, righteous, patriotic will-consciousness.

Nebraska's Experiment

(Continued from page 298)

is a very vital and live question among country banks. Many of them do not have secondary reserves and depend wholly upon their small cash reserves and luck to meet unusual demands that may be made upon them. Many have also found it difficult to raise the necessary cash upon which to operate because of the fact that they did not maintain an adequate secondary reserve of liquid securities.

It must be apparent to anyone who is giving this subject any consideration at all, that high-class experienced men of ability cannot be obtained as managers of small, isolated country banks. The banks cannot afford to employ men with such experience and ability. Therefore, if the failures among the small banks throughout the country are to be prevented, there must be some way devised whereby the group experience can be transmitted to the men who are in charge of these units, in a way and in a form that will enable them to act in a safe and sane manner in the management of their banks.

Permanently On the Job

IT is hoped that through the Regional Clearinghouse Association, that every sort of information that will contribute to better bank management will be made available for the entire membership of the Association. Enormous sums would have been saved bankers of the country in the last ten years if such an organization had existed.

The ease with which these associations can be formed recommends the plan to practical bankers. The plan contemplates that the various banking departments of the states will slightly change their present system of bank supervision by permanently locating each examiner in a commercial center within easy driving distance from all parts of his district with a sufficient number of banks in his district to occupy him; make the examiner responsible to the bank commissioner for the banks that he examines and keep him permanently on the job. Then, when the reports of these examiners are correlated in the bank commissioner's office, such information as is pertinent to the banks of each district is forwarded to them through their examiners.

A complete credit bureau can thus be established in the bank commissioner's office at the State Capital at a trifling expense by merely requiring each bank to report a list of borrowers with each quarterly call. When these lists are in the hands of the commissioner, cheap clerks can card-index them, which will show the duplicate borrowers throughout the state almost at a glance as soon as the names are card indexed. The bank commissioner then under proper rules can disclose this information through the examiners in their respective districts to the banks affected, thus making available the information that banks require, at a trifling expense.

Owed Eight Banks

TO show the usefulness of such a system an actual experience in my home county is worth repeating. Lorenzo Dow had been slipping for ten years. He began trading around before the war. His reputation for integrity and solvency was so well known in the small locality where he lived that no banker ever asked him for a financial statement.

But, each year he was losing ground and finally after ten years of losses, his affairs became so complicated that one banker was moved to take his financial statement with the result that he was

shown to be a financial wreck. The investigation disclosed that he was borrowing from eight banks and he owed them all in the aggregate a large sum of money.

The point then is, that these eight banks were examined by state and national examiners twice a year or sixteen times through a period of ten years, making a total of 160 examinations and yet not a single bank among the eight knew that this man was borrowing money from any other bank than his own. Had they known that he was borrowing from other banks and was losing money, they could have advised him and checked his career and saved him from financial ruin, but they did not know it. Yet, they paid for examinations, paid all the expenses for the maintenance of expensive banking departments, state and national.

Stored in Archives

NOW why had not this information that must be in the office of the bank commissioner been made available for the banks that were affected?

It was not made available for the simple reason that the bank commissioner is a political lieutenant of the governor, and always has been in our state. He comes in office with the governor and he goes out with the governor. His position is dependent wholly upon the political fortunes of the governor. The result is that in Nebraska we have had four bank commissioners in five years. None of them holds his position long enough to get his seat warm before there is a turn in the political wheel and they are thrown into discard.

They are not in office long enough to know what is needed and what ought to be done. The information that the bankers of the country pay for collecting, is stored away in the archives of the Banking Department and serves no useful purpose unless a bank is so bad that it has to be closed.

No More "Spite" Banks

THE Regional Clearinghouse Association of Nebraska spends a great deal of time pointing out these weaknesses in our banking system and is recommending to the bankers of the state and to the people that the first essential step to guarantee the solvency of the banking institutions of the state, is to take the Banking Department out of politics by extending the tenure of office of the Commissioner of the Banking Department to a period of six years which will take him out of the realm of the influence of the political machine to a very large degree. Then, coupled with this legislation, the creation of a banking board, composed of bankers themselves that will sit in conjunction with the commissioner to consider the question of granting new charters for banks is recommended.

With such a commission, we eliminate another very great evil and one that has contributed to more bank failures than any other cause, and that is a superfluity of banks. It will be practically assured that "spite" banks will be no longer chartered and only charters will be granted to banks where they are actually needed.

The people ought to be taught to understand that a bank is a quasi public institution acting as a depository for the people, and should, therefore, not be subjected to the principles of ruthless competition to which other business is subjected. To do so means insolvency and all the consequent ills that follow in the wake of bank failures. The people through their political banking departments are to blame for all bank failures, for the people created the banks in such excessive numbers, that they have starved for want of patronage. Those that did not starve were wrecked as a result of poor supervision on the part of the people's representatives. The solvent bankers of the country are in no way to blame for the great losses the country has sustained through failed banks. They neither created them, nor were they permitted to say anything about their supervision.

Group Subscription Plan

Five or more subscriptions, entered at one time, will entitle any bank to a rate of $2 per year per subscription—a saving of $5 on the group.

Extending Clearinghouse Examination of Banks

(*Continued from page* 290)

well, a system controlled and directed by the banks themselves, can supplement Federal and state examinations to the point of making the possibility of bank failure exceedingly remote. Banks do not fail overnight, nor generally through defalcation or embezzlement by officers or tellers. Failures are rather due to a long succession of errors due to mismanagement, included among which must be mentioned that form of mismanagement which permits new banks to be organized where additional bank facilities are not needed.

Elements of Weakness

A CHARACTERISTIC symptom of weak banking is the adoption of the formula that the most useful service a bank can render a customer is to lend him money. Paralleling this fallacy is another—that so long as a borrower pays interest on his loans, he has done full duty to his bank. One weakness of our independent banking system is its failure to provide means to make possible the common possession of knowledge and experience regarding banking. This incidentally was one of the weaknesses of early American banks. An attempt was made to correct it by providing governmental supervision and control.

Thus far it has been considered unethical for bankers even to appear to criticize the constituted methods of official examination, as if such criticism is evidence that they are unwilling or unable to stand the test and scrutiny of the examiner. I would not have my statements construed in any sense as a criticism of such official examinations any more than bankers or the general public today believe that clearinghouse examinations are by their very existence a reflection upon Federal and state control. Nothing is gained, however, by ignoring the fact that Federal and state examination systems contain elements of weakness which are inevitable.

Facing a Threat

FOR example, the tenure of office of a bank examiner is bound to be uncertain. There are frequent changes and in many sections of the country the same man rarely examines a bank more than two or three times. There are many cases on record where four or five different examiners in succession have visited one institution. Such a situation cannot fail to produce examiners unfamiliar with local conditions. Finally, and this seems to me the most important difference between the two systems of examination, no way has been discovered thus far to retain the advantages of secrecy of examination, and avoid its disadvantages. The official examiner is somewhat in the position of a doctor who, instead of quarantining a smallpox patient, would be obliged to keep the presence and treatment of the disease an official secret. But no matter what we may believe as to the relative efficiency of methods of examination, until the bankers themselves take voluntary action to improve the quality of bank examinations, we will continue to face the threat of branch banking, deposit guarantee, or supervision and control by absentee bank examiners.

In line with the suggestions made last year by the Economic Policy Commission in effect endorsing and recommending a better system of supervision through clearinghouse examinations, we intend to continue our efforts along these lines until our depositors can feel certain that in so far as it is humanly possible to do so, we can assure them careful bank management. Nor is the mere establishment of clearinghouse examinations all. Each year under the auspices of this section examiners and

clearinghouse managers hold sessions (to which Federal examiners and state bank commissioners are invited, to exchange ideas and improve methods and technique.

Astonishing Results

THE distribution of the various booklets and pamphlets issued by the Clearinghouse Section on analysis and service charges has far exceeded anything we have ever undertaken along the line of educational literature. One booklet entitled "A Conversation between a Depositor and a Banker regarding Service Charges" has reached the remarkable total of over a million copies, which have been purchased by member banks for distribution among their customers. Although the practice of installing service charges has spread so widely as to make a count rather difficult our records show that about 10,000 banks in some 2,000 towns and cities have installed service charges on unprofitable checking accounts. The practice will doubtless soon be universal.

In this connection I would like to quote from a report just issued by our Bank Budget Committee, which report I shall refer to later. A careful survey of the figures submitted by 276 selected typical banks throughout the United States produced some astonishing results, none of them more significant, it seems to me than that which is referred to by the report in the following language: "The major portion of the profits are attributable to the investment of the stockholders' funds and not to the operation as a banking institution. This is a condition which we have invariably found. It is not one peculiar to certain banks or certain localities, but is one that will be found in banks of all size, regardless of their location. It is due in great part to the high cost of deposits, and the services which are given away to depositors, regardless of cost, or their effect on the profits of the bank."

Few Stop to Figure

ALTHOUGH this section thus far has not been very active in the matter of payment of interest on balances, especially savings accounts, the report of the budget committee, based upon the analysis of interest conditions, among other things says:

"Many banks know that their basic interest rate on time deposits is, say 4 per cent, but few stop to figure the actual effective rate. If the interest expense is kept separate, it is possible to determine this, and interesting facts are developed. . . . In more than one case it has been found that there is very little margin between interest income and expense, but that profits on securities, commissions and similar items have hidden this fact from the bank executives. Lack of knowledge on this point has been one of the chief factors occasioning the payment of high interest rates on savings and the unwarranted payment of interest on certain commercial accounts."

Husky Men

IN the matter of payroll problems which have been referred to in our section, we have made a complete about-face move. After securing the opinion of bankers and business men throughout the country, through the use of a questionnaire, our first recommendation was that banks should make every effort to introduce the use of payroll checks. We found, however, that this met with very decided resistance on the part of labor, principally because they found it inconvenient to cash such checks. We still recommend that banks should cooperate as far as possible in providing pay check service to such employers of labor as find it convenient to use them. We have come strongly to the conviction, however, that the question of delivering cash for payrolls from the bank to the shop is primarily the problem of the employer of labor and not the problem of the bank. Furthermore, the average employer of labor is much better equipped to provide properly armed guards and conveyances than the bank is. I have in mind a recent hold-up case in a large city in which a bank employing fifty clerks, possibly one-third of them women, was delivering a payroll to a factory which employed 400 husky men. The bank messenger and his guard were held up and robbed of the entire payroll. Our Committee on Payroll Problems believes that we ought to face the issue squarely by recommending to employers of labor that they and not the bank should assume the risk

of payroll delivery and that they may count upon full cooperation by banks in meeting this troublesome problem.

What seems to me the most important new work recently undertaken by this section is the completion of a booklet showing a comprehensive analysis of bank budgets. After determining upon a general plan of procedure, the committee, under the able chairmanship of James R. Leavell of Chicago, engaged the assistance of a firm of public accountants which had made a specialty of bank account analysis for some time. Questionnaires were sent to a selected list of banks, and the results have been tabulated in such form as to make it possible for any bank in the country to compare its items of income and expense with a typical average bank of its size. Thus we are now able to give to any bank a sort of standardized expense chart made up from the experience of other banks doing the same kind of business. We expect this booklet will have a wide distribution, although at present, the method of distribution had not been determined upon.

Let me point out again the possibilities of usefulness of the work of this section to the members of the American Bankers Association. If you will search through banking legislation and other legal statutes, you will find no reference to the organization of clearinghouses. It is true the Federal Reserve Act refers to clearinghouse associations, but only with respect to the operation of the clearing principle.

Clearinghouse associations have been the result of voluntary action on the part of banks. They have not been created by law. Thus it may be said that sound clearinghouse practice is in line with voluntary action and not compulsory measures. I read recently a statement as wise as it is true, that men will hesitate to violate custom who would very willingly violate a law if such violation were to their selfish interests. This is a principle upon which the soundest of our laws are based, and is the fundamental strength of the clearinghouse association in the banking field. Our banking law will be better or worse as bankers themselves adhere to or depart from that which experience and established custom has proved to be so sound. Seldom do we find a clearinghouse which represents the combined wisdom and judgment of a group of bankers, doing anything that would weaken or jeopardize the financial and business structure. So I believe we can rely upon the activities of this section always to be along the line of better and still better banking practice.

Help for Merchants

Do the banks' merchant customers know that there is in the Government services vast sources of knowledge of practical value to them?

A pamphlet entitled "Practical Aids to the Independent Merchant" just issued by the Commerce Department, and obtainable without cost, tells what the Government can do to aid the small business man in an age of highly organized commercial activity.

Among the problems which the department is studying and which are perhaps of the greatest interest to the independent merchant are those dealing with retail distribution and marketing. The position of the middleman under present-day conditions is receiving special attention.

Recent studies by the department have shown that the profits of many wholesalers and retailers alike are being dissipated through uneconomic practices, such as the handling of unprofitable items, soliciting unprofitable customers, striving for volume without regard to costs, and the use of poorly devised credit practices. One analysis of retail selling costs disclosed that certain commodities cost nearly three times as much to sell as others. Another study of retail profits through stock control showed how one merchant was able to solve many of his problems by means of a simple method of record-keeping through which he was able to pick out and discard those items for which there was little or no demand.

Among the many subjects which are being studied are credit and delivery, measuring the market, store location, store planning, educating a sales force, cooperative advertising, department leasing and vehicular traffic congestion.

Upholding the Hands of Moses

(*Continued from page* 285)

were chilled to the marrow with frozen loans, you just offer to pay your wife's butcher bills when she orders your next Sunday's roast.

Not in hogs at $13 a hundred. We called them mortgage lifters years ago when they sold for $7 a hundred. Then corn was worth 50 to 60 cents a bushel; now it is $1.

Corn on the Hoof

I HAVE referred to the stability of dairying. At no time this year has the price of market milk to the farmer in most of the dairy districts been below $2 a hundred. With dairy cattle now bringing the highest price since 1920, with the wholesale price of butter ranging from 42 to 48 cents during the flush of the season (retailing at 55 cents a pound) with 25,000,000 less pounds of butter in storage to meet the winter needs, with stocks of condensed milk the lowest of any period but one in the last eight years, the outlook for the old dairy cow does not appear so very bad. No one is now suggesting a McNary-Haugen bill to remedy this situation.

The corn belt can hardly get out from under the crop that is likely to be harvested this year. Only twice before in our history has this country ever raised a crop in excess of this year's prospects. It will be a wonder if the price this winter does not decline but no live stock feeder is going to object if he has to feed cheap corn into 13-cent hogs or 18-cent steers. As over 80 per cent of all corn grown is fed in the locality where produced, the problem of most importance is corn marketed on the hoof not cash corn.

Hazards Increase

WHEAT is materially different. Regarded as the barometer of farming like steel is of business, its price fluctuations range wider because our surplus production has to compete mainly with the rapidly expanding fields of Canada. In the last year Canadian wheat planting was expanded over 1,500,000 acres. The expansion of the dry farming area of this country has added over 3,500,000 acres in the states west of the Missouri, but the hazards of the crop under these conditions are much increased.

The recent price decline in wheat has been accentuated by the unusual per cent of the crop that has been thrown on the market by reason of the extensive use of the harvester combine. This has made possible early as well as extensive marketing.

Did you ever stop to think what a revolution in the use of land has come from the wide spread employment of the motor? The replacement of horses by tractors and other motor equipment has reduced the use of land for the production of feed for horses by about 10,000,000 acres. One hears much criticism about clearing more land, but no one criticizes the substitution of gasoline propelled for horse-drawn machinery, although if oats are not need for horse feed, the released acres must be put to use if they are to bear the burden of taxes, of interest and the like.

Reclamation Agitation

I SHALL venture to indicate some ways which might possibly serve to equalize the status of the farm with other phases of industry and business. Some of these suggestions would require legislative and governmental action before they could be made effective, but all of them first require the development of a body of public opinion that can only be brought about by frank discussion. It can hardly be thought that agreement on these suggestions will be at all likely. Nevertheless it is through such discussion of conflicting ideas that judgments are made on which future progress may be based. I can imagine beforehand that some of these suggestions are not likely to be accepted at face value by some, but their adoption would alter the existing state of affairs, and but few of us like to be disturbed, whether it is in our beds or our business.

With all of the discussion on the subject of curtailing further expansion in crop area, agitation still continues for

more government reclamation projects. As a matter of fact, the irrigable areas in the west that are now provided with water but without farmers show over 7,000,000 acres of unused land ready for the plow, but no one on the land. In one western state alone there is under ditch with available water over 2,000,000 acres that have never been irrigated at all. Yet the halls of Congress resounded this last session with new proposals for additional Federal projects that would bring into use hundreds of thousands of acres of desert land and incidentally would cost the Federal treasury only $100,000,000 or so. Did you ever look up to see how much delinquent interest and taxes the Federal government has already remitted to the occupants of existing Federal irrigation districts? If you do you may be surprised to know that $135,000,000 has already been written off on these projects up to 1924 and the end is not yet. It is so much nicer to have Uncle Sam hold the mortgage on these enterprises than to have a hard-boiled banker trying to collect the interest. Congress might uphold the hands of Moses by refraining from further extension of reclamation projects until at least population needs in those sections economically warrant their development.

Caution Should Be Used

DRAINAGE enterprises have also been developed far in advance of economic needs. The United States Department of Agriculture recently reported that less than 40 per cent of the lands already drained in the Mississippi Valley and the south Atlantic states were actually in cultivation. The operation of many of these projects and their restricted utilization makes it doubly necessary that much caution should be used in further expansion of large projects of this character. The improvement of wet spots on individual farms can well occupy the attention of drainage enthusiasts for some years.

A primary difficulty that cannot readily be overcome is that there is no way to control expansion in crop acreage or reclamation of present unused lands when once they are in private hands. To the individual who has to pay fixed charges of taxes and investment, it is necessary to him to make such land carry itself even though its use might contribute to an existing surplus. The only deterrent will be the economic one as to whether it can be made to pay.

I have not heard anyone as yet suggest that the government discourage the further establishment of filling stations, although it would seem that there was over-expansion in plant facilities. Perhaps some day the point will be reached where the gallonage sold will not carry the overhead and the operation of recognized economic law will here have its effect.

Timber for Pulp

IN the development of a more rational land policy, the relation of timber growing to farming should be much more closely correlated than has been done in the past. America has been so busy cutting down the magnificent forests of pine and hardwoods that have taken nature hundreds of years to grow that we have failed as a nation to recognize that this essential commodity to our well being is being removed at four times the rate of natural replenishment. The two basic factors that have led to this hastened depletion of timber resources have been fire hazard and the archaic system of taxation which taxes timber values on an annual basis like farm lands which produce a yearly crop. Some of the lumber-producing states are now beginning to secure legislation that imposes the major part of taxation on a yield or stumpage basis, thus making the carrying charges on growing timber payable in the main when the timber is removed. In Wisconsin inside of the past ten months 165,000 acres of cut-over land have been placed under our new forest crop law in which the owner pays annually only ten cents an acre as a land tax, and the state also a similar amount to help carry the schools and cost of government. When the timber crop is removed the state takes 10 per cent of the total gross receipts as taxes for the life of the tree.

Millions of acres of our sub-marginal lands that are too rough, stony, or unsuitable for farming should be growing our timber for future needs. In our forested areas additional millions of acres of land that utlimately would be worth developing into farm land when needed could be employed for one or more crops of pulp-producing timber.

When one realizes that the United States is now importing over one-half of its pulp and paper requirements from foreign countries (one-sixth of it even coming from far off Sweden), it is obvious that the investment of many hundreds of millions of dollars in water power development, and pulp and paper mills that cannot be moved with the exhaustion of supplies of raw material require a renewal of our pulp and paper needs. A crop of pulp wood that will permit of economic and profitable use can be readily grown in thirty-five to forty years. With proper legislation, particularly as to fire control and taxation, private organizations are already convinced of the economic advantage of reforestation for the perpetual maintenance of adequate supplies of raw materials for these industries. Just to the extent with which industries of this permanent character can be maintained in close contact with the centers of agricultural production will there be constantly increasing local demand for our farm products.

The Tourist Crop

MOREOVER the implications of forest development are by no means confined merely to utilitarian purposes. More and more our people are realizing the advantages of recreational facilities. The tourist crop is now one of the main sources of income in many of our states. It is the only crop I know of which can be developed on the cash-and-carry plan where the buyer makes his own delivery and when he has taken what he wants in relaxation, pleasure and enjoyment of scenery, he leaves as much for the next purchaser as there was before. But the tourist, the camper, the lover of the out-of-doors is not attracted to burnt-side lakes, and streams that are studded with blackened stumps and rampikes of dead trees.

As an asset millions of acres of our cheaper type of lands could be more profitably kept as wild life refuges, cover for trout streams and game, and a sanctuary for the city dweller. The popularity of our state and national parks as the people's playground shows what are the possibilities of correlating our forest problems with recreation and utility.

From Him that Hath

ONE of the most effective ways in which the hands of farm leadership could be strengthened would be a non-political, non-emotional critical study of the problems of taxation, with the object in view of placing this important and necessary attribute of government on a sound and modern basis. It is generally recognized, if not admitted, that a ratonal and justifiable basis on which taxes should be collected is on the relative ability to pay. Maintenance of individual existence certainly takes priority over demands of government, but the protection to life and property afforded by stability in government certainly comes next. Most people are ready to accept the idea that he that hath is not only able to pay but should pay more than he that hath not.

In the early history of a country, taxation of real property was undoubtedly the most representative tax that could be imposed, because values consisted mainly of land and its attached structures. But the industrial revolution has greatly altered this condition and has in recent decades created a class of property—intangibles—that now bulk large in the assets of the country. Moreover the differentiation of industry has now given us a professional and business class whose income is not based on property so much as it is on the personal services rendered. It is a fair question to ask whether the relation between taxes now levied on income throughout all of the states of the Union is properly correlated with those levied on real property. The National Association of Real Estate Boards is authority for the statement that 80 per cent of all taxes paid in the United States is now paid by real estate. While we have a national income tax, only a few of the states have in any national way utilized the taxation of incomes as a means of distributing the burdens of government.

Tax Burden Unbearable

WHEN land values were rising steadily the burden of taxation was not disproportionately severe, but with the terrific deflation which has occurred within the last decade in farm real estate, the crushing weight of the land tax

burden has in many cases now become unbearable.

The ratio of land tax to the cash rent of farms formerly was about one-tenth to one-eighth of the rent received, but it has now risen in many places to one-third and even one-half of the income. This means that the farm operator must first work at least one-third of his time for the government in order to have the balance of his time to earn enough on which to live, for taxes must be paid first. This requirement of government takes precedence even of living requirements. The rapid increase in tax delinquency in practically all of the agricultural states shows how the weight of this tax burden has been increased. In a recent study of the income tax in Wisconsin we found that three times as large a proportion of the net income of farmers was now required in taxes as were required of city dwellers.

The economist, Colbert, said that taxation is the art of plucking the goose with the least possible squawk. One may well imagine that there can no longer be even a squawk when the squawker is unable even to keep his head above water. It makes but little difference what happens tomorrow or the day after, if a fellow sinks beneath the waves for more than a few minutes.

The great trouble with the tax on real property is its relative inelasticity. It does not rise and fall with the income from land or the assessed value of property.

America Lags Behind

MUCH as the politician is willing in his pre-election promises to tell his constituents that he is in favor of a reduction in taxes, it is not at all likely that less money will be spent on schools and roads than has been in the past. These two major items take about two-thirds of the taxes raised. Even in spite of the gas tax for road construction and maintenance, which is now all but universal, over one-half of all of the costs for highways comes from the general property tax.

England and Germany, much older countries than ours, have progressed much farther in the rational study of taxation than has America. Industrial enterprise there has occupied a relatively more important position for a longer period of time than in this country. The consequence is that less reliance is therefore placed by them on the avails of real estate taxation than here.

No more statesmanlike step could be taken by the American Bankers Association with its 21,000 members (which includes the financial leadership of America) than to put its shoulder to the wheel to solve this problem wisely.

What Agriculture Needs

WHAT is needed is a non-political study of the whole field with the end in view of recognizing that greater justice and equality will come by transfer of a larger proportion of real estate taxes to other types of taxation. Whether this should be borne by income directly, or through a consumption or sales tax which indirectly comes back upon income, only a careful, unbiased analysis would determine.

Naturally opposition to any change will come from those on whom the burden is now relatively lighter than it is on real property, but as America is now developing, and as it undoubtedly will develop in the future, is it not right? Some day America will solve this problem in the light of twentieth century ideas. Must progressive America wait for an agrarian revolution before we drop the tax methods of the days of Washington and Jefferson and line ourselves up with those countries that are industrially in our class?

School Costs High

ONE of the main expenditures that is made from public taxation is due to the maintenance of our schools, and there are but few who would gainsay this item of expense, recognizing the fact that an intelligent, educated electorate can only be secured if our children receive the best training that can be provided for them. The city with its constantly increasing accumulation of wealth has been in better financial position to recognize this need and meet it adequately. But the country school with its wide range in taxable property and its smaller attendance of scholars, finds it increasingly difficult to meet

the ever growing burden of a higher minimum wage for teachers, pupil transporation, operation of consolidated schools, and all other advanced steps that a progressive school system requires. Steadily, and often with rapidity, have the taxes for such schools grown heavier until the burden has galled beneath the yoke.

In my own state of Wisconsin in spite of the fact that some state aid has for many years been given to the schools for certain purposes over 90 per cent of the cost of public schools has hitherto come from local taxes.

The tremendous wide variation in the amount of assessed valution per pupil in one district compared with another shows the injustice of expecting each local school to bear in the main the burden of its own schools. To cite an example in my own state, one country school had a valuation of only $3,300 per pupil whole another rural district having exactly the same number of scholars had over $52,000 of assessed wealth behind each pupil. Under such conditions it is a foregone conclusion that the schools in one district cannot be as well maintained as they are in the other district without imposing a burden that simply cannot be met. In one of the richest states in the corn belt the annual school tax alone has ranged as high as $1 to $2 per acre on farm lands.

Somebody Else's Children

AN equalization of these school taxes over a larger assessment basis would be one of the ways of lightening the burden of farm taxation in many regions. This method has now been put into operation in a number of states. An educational equalization tax is raised, sometimes on the basis of a general property tax, sometimes from income, and in some cases as a sales tax on luxuries as cigarettes, cosmetics and the like or a severance tax on such natural resources as oil, gas and mineral wealth when mined. Nearly a dozen states have now taken this progressive method of relieving the school burden in the less populous and poorer districts. Just as the gasoline tax has relieved the local community of a share of the highway tax, so this equalization of the costs of the public schools will relieve materially the poorer school districts and also improve the character of the schools.

It is easy to see some would-be protector of local autonomy rise to object to being taxed to support schools for somebody else's children in another portion of the state. But education is a state-wide or even a nation-wide problem.

We who live in the city are directly concerned as to the kind of education that the country boy and girl is to get. For the chances are that our next door neighbor will in a few years be one of those same country boys. The continuous flow of population from country to city and reverse makes it imperative that educational facilities should be as uniformly distributed as possible.

Sky Rocketing Prices

ONE of the heaviest handicaps that industry may suffer from is overcapitalization of its plant. The fixed charges that develop from interest on capital invested, or from rent, make an initial charge on industry from which escape is impossible. In farming the charges imposed through a rise in land values have laid an exceedingly heavy burden on this industry. This upward movement assumed its greatest impetus in the first decade of this century. Land prices increased on the average the country over at no unwarranted rate until about 1900. The long continued deflation which followed the Civil War reflected itself in a slow recovery in agriculture as in business. The newly opened lands of the Central West began to be capitalized on the rising value of their products, the reduction of grain costs through the development of harvesting machinery, and the building of railroads by which cheap transportation was effected. It was this economic development of the Middle West that ruined land values in New York and New England.

By the end of the first decade of this century land values had increased to a substantial degree, but in the tremendous inflation of the great war, all normal conditions vanished and the skyrocketing of prices led to an orgy of

speculation that rivaled the hectic periods in Wall Street.

Farm prices were marked up overnight on the basis of the earning power of the moment only. When such a condition prevails in the stock market, it is recognized as merely wild speculation, but conservative minded farmers, bankers, and others engaged in this unwarranted speculative movement as if land values were to be permanently maintained at this fictitious level.

Milk, Honey and Prosperity

THE worst of it was the man who owned his land and who was perhaps all out of debt was lured into the maelstrom of speculation to buy adjoining farms. It was this condition which started much of the financial embarrassment and unrest of the agricultural West. As long as a man owned his land and did not have to pay out interest on his invested capital to himself in addition to the taxes which he could not in any way avoid, it was possible for him to operate his farms without running in debt, but with interest to meet on mortgages as well as taxes when deflation in prices occurred, his labor income dwindled to nothing or went to the red side of the ledger.

It was then that trouble in agriculture began to be acute. Delinquent interest began to pile up. Taxes were more difficult to meet. The banks and other loaning agencies began to be congested with frozen loans.

Even the cheaper money which the farmer got through the medium of the Federal Land Banks, the Joint Stock Land Banks and the short time credit system failed to give the hoped for relief. The agitation for legislative relief grew more and more insistent. The politician with his ear to the ground quickly heard the rumblings of discontent, and scheme after scheme was launched in the halls of Congress as a panacea for the troubles of the farmer. The mere weight of numbers of this group, comprising as it does nearly one-third of the entire population of the nation was sufficient to attract many individuals, each of whom was willing to be a political Moses to lead the oppressed people from their financial bondage into a promised land of milk, honey and prosperity. But the hands of Moses grew heavy and Amalek prevailed. Financial burdens increased. Farm bankruptcies rose as never before. Tax delinquencies multiplied many-fold, and in many localities land values have fallen to pre-war levels and even less.

To Get Out from Under

THE interest of the non-agricultural class in this financial picture has taken on a new aspect mainly for the reason that a larger and larger proportion of this increasing farm indebtedness has passed into the hands of city people. In the year 1927-28 according to figures collected by the United States Department of Agriculture the current value of invested capital in American agriculture was almost $59,000,000,000, but with $32,000,000,000 actually owned by farm operators. Twenty-seven billions represents the financial stake that the outside public now has in American farms. Prior to the war inflation in 1910 the estimated obligations of farmers in the hands of the public was only $16,000,000,000.

Of course a good deal of this represents the retired farmer who perhaps sold his land at a high figure when prices were high, but most of this kind of financing had already come back into his hands before the 1927-28 statistics had been collected.

The investor in land mortgage securities, whether under Federal supervision or under corporate or private auspices had had no end of trouble and loss in liquidating his land mortgages and bonds. Numerous bankers have individually told me that their main interest in some of the proposed relief measures was the hope that the congressional pulmotor might inject enough life into the body of agricultural finance to enable what they feared might be a corpse to be brought back to life, and thus give them an opportunity to get out from under before the patient had a relapse. Pulmotors fill a needed place in emergencies but agriculture is suffering from basic conditions that need more than pulmotor treatment.

Drastic as it may be, American agriculture may have to recognize in the future that it is futile to expect that farm land valuations can wisely

again approach war time levels. The only sound basis of value is on a stabilized earning capacity. Ultimately and permanently land values must reflect the relative profits after fixed charges are met. This is the basis on which all other business is conducted and agriculture can neither expect nor demand any other policy as a permanent method.

Railroads and factories not infrequently have to undergo a financial reorganization in which the capital structure has to be reduced to what the business can actually earn.

I shall not be accused of undue optimism in proposing this method as one of the ways in which the future of agriculture can be steadied. Leaders who have to look to political futures will not be willing to advocate the wisdom of such drastic treatment. But it would mean much for the permanence of American agriculture if we could get out of the public mind the idea that agricultural prosperity is dependent in a large degree on marking up the price of land. Will not profits in farming be increased more with a lower land valuation based on earning power than from inflated level of land prices? Such deflation would in time aid materially in a reduction of the tax on real estate.

Higher Rewards

THE future success of the farmer lies in improving his labor income rather than the unearned increment due to advancing price of his farm. More and more the farmer's return will rest on what he has for his labor and less on the income he receives from property. When capital is secure it is willing to take lower rates of interest. The government already has gone far to give the farmer an opportunity to get his needed financial help at a lower rate than most other lines of business enjoy. Only government itself through its various political units (Federal, state, county and municipal) that have the unique prerogative of the taxing power can borrow money now as cheaply as can the farmer.

Present land values may doubtless be taken as representing the maximum of deflation. The decline has run its course. In all probability there will never be another opportunity in our life time to buy land as cheaply as can be done at the present time. The large number of "distress" farms that have had to be taken over by the mortgagee, who is in no way equipped to carry on the property he has been forced to acquire, makes the present a buyer's rather than a seller's market. Now is the accepted time for the man who wants to start with a low capital investment. Human nature, however, is such that most men make their investments on the bull rather than the bear side of the market, but the future stability of agriculture would doubtless be better assured if we should never see again the speculative era where farm lands reached the level of several hundred dollars per acre.

With reasonably cheap money, where interest charges have to be met; with reasonable adjustments in taxes that are sufficiently elastic in their imposition to meet the fundamental principle that the cost of government should be met primarily on the basis of ability to pay; with a capital structure that reflects earning power rather than inflated and unearned increment in property values, the human element in farming is in a better position to enjoy the fruits of its labor on the basis of a better labor income, just as the human equation in the industrial world has within the past decade received relatively a higher reward for its service than was formerly its wont, and Aaron and Hur stayed up the hands of Moses until the going down of the sun.

Convention Calendar

DATE	OTHER ASSOCIATIONS	PLACE
Oct. 17-18	Nebraska	Omaha
Oct. 26-28	Arizona	Globe

DATE	OTHER ASSOCIATIONS	PLACE
Oct. 17-20	Pacific Regional Trust Conference	San Francisco, Cal.
Nov. 12-13	Association of American Bank Travel Bureaus	Chicago, Ill.

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Administrative Problems and Their Solution

(Continued from page 302)

Be that as it may, on the other hand, there is a certain bank in this country that is making a tremendous appeal in the manner of showing the value of doing business by cash and of the cash value of a savings account. For instance, they have shown by their copy that it is possible with the use of cash, and buying at the right time of the year, to save $1.50 or $1.75 a ton on coal; that it is possible to save 25 per cent on furniture by buying for cash at a certain time of the year. They have also shown how it is possible on $2,500 of the average purchases of the average family, for that family to save by cash about 10 per cent by buying at the right time when the market is right in those $2,500 of purchasable commodities, in other words, a saving of 10 per cent.

Net, Not Number

IS there any investment more safe or sure than a saving of 10 per cent on the $2,500 worth of cash transactions properly carried on at the right time, or as they have appealed in their advertising on another score? They have taken $500 savings account and then take, they say, any $500 stock or bond and compare the two with the ten principles of investment and they contend that a $500 savings account is a better proposition for the average man than any $500 stock or $500 bond from the standpoint of interest return, marketability, safety, and all the other ten factors entering into the criterion by which you judge a good security.

So, it is possible to preach the results of increasing the size of the savings account, and good merchandisers of the country over today are realizing that their net profits will accrue very largely from doing more business with people already on their books rather than going to the expense of promiscuously appealing to the general public and increasing the number of people because it is possible to have a great volume from the standpoint of numbers and still have a very low net. It is the large net that actually makes the dividends or creates the surplus and not the great number.

Jeopardizing Safety

THE second administrative problem is at the point of cooperation. I find this to be a very real problem in some states of this country, the ability of banks, independent bankers, to cooperate on certain basic problems affecting banking. Here is a bank commissioner of a certain state who tells me that he could not get the bankers of that state to cooperate on a certain very evident problem which was necessary for them to cooperate upon.

He made an investigation of a period of some several years, and showed beyond all reason of a doubt that in that particular state for the bankers to pay more than 4 per cent on time deposits for savings would be foolish. In fact he proved and knew that there are a number of banks in that state actually paying over 70 per cent of their income out to this one source alone, and steadily going into bankruptcy and jeopardizing the safety of their institution.

Finally, because he could not get the cooperation of the bankers within the state, it became necessary for him to step in and have a regulation passed in that particular state in order to save the banking institutions where the bankers would not work together.

More Paternalism

I DO not believe, of course, that it is necessary to get 100 per cent always on that particular item. A man in Indiana, in a little town, the other day told me he has had a 3 per cent bank for a number of years, and he has taken cash money and deposits away from the 4 per centers in the city simply because the rank and file of the general public in this day and age have come to believe

they would rather have 50 cents or $1 less a year on the $100 and have it safe in the 3 per cent bank than in a 4 per cent bank when there was some jeopardy in that particular territory. That of course takes into consideration what the earning assets of the bank may be in that locality. It may be 3, 4, 5, or whatever may be the per cent.

The point I am simply making is this, that when it is proved that in a given area the banks in that area ought not to pay beyond a certain minimum or maximum, then it is up to the independent bankers to cooperate on that kind of program. If they do not, then one of two things will result: Either on one hand you will have more paternalism, more control by state forces in the interests of safety, or, on the other hand, you will have the wider extension of chain banking or branch banking, because you cannot deny an economic law. If cooperation is necessary on these given points, then you are either going to get that cooperation by state law or by ownership through chain bank control, or branch bank control.

Today there are fifty-two chain bank systems in America operating in twenty-four states. There are approximately 1,000 banks today which have branches in this country. By one means or another, we have to obey economic law, and if we cannot get it by the independent cooperation of independent bankers, then it must come by one or the other channels on some of these basic fundamental problems in the administration of our bank.

The third problem that I have encountered here and there over the country has to do with the personnel of banking institutions. Banks, as you all know, have had two fundamental trends. One has been a vertical trend following last year's conference at Houston of the American Bankers Association, where they recommended that the banks have a vertical development, increasing their capital structure from the standpoint of their resources and surpluses, intensively studying the different phases entering into bank costs.

Banks have that vertical development, investigating and studying, as they never had before, the whole problem of bank management. Second, banks have a horizontal or extensive development. Banks today are doing more than they have ever done before to financially serve their clientele. Banks have their trust departments, their savings departments, their checking and commercial departments, their real estate departments, their insurance departments in some banks, trusts, and every other financial need almost, being served by various institutions, which means that a trained personnel becomes imperatively necessary to carry on the program of the modern American banking institution.

Wanted a Job

THE American Bankers Association has for twenty-eight years sponsored an educational program through its American Institute of Banking, and probably it is the outstanding piece of adult educational work being carried on in America today of any kind and of any character.

The other day a man came up from a little town in Indiana to South Bend. He was working in a bank in this little town, and he wanted to get a job in South Bend in a larger place. He went to three banks and was turned down at all three. He finally went to a fourth banker and said, "What is this Institute business?"

"What do you mean?"

"Well, every place I have been they asked me if I had a standard certificate or if I was on my road to a standard certificate. I never heard of that."

The banker began to tell him what the American Institute of Banking is and why the banker looked upon it as a necessary thing in that particular city.

Group-Minded

HE said to him, "The banker knows, in the first place, when he hires a young man or a young woman who is on his way toward his standard certificate, that that person is looking on banking as a career; he is not giving up his time for pleasure in order to study five or six or seven years if he is not going to look upon banking as a long-term, a long-swing proposition. That is evidence to the banker that he is interested in banking as a career, and

permanency of personnel is the first cornerstone upon which we build a good administration.

"Second, the banker knows that if that young fellow is studying, he is probably better trained to carry on the job now being necessarily carried on by the modern bank.

"In the third place, he knows that that young fellow is probably enthused with the idea of working with other people. He has done it in his committee work in the Institute, he has done it in the various types of administrative work being given to him, and hence he can get along, he is group-minded, he can work with other people and he can work within the organization."

Vehicle of Careers

IT is for these reasons that I have seen banks in Pittsburgh, in San Francisco and in other cities have right on their application blanks this statement: "Are you a member of the American Institute of Banking? Are you willing to take its courses?" By that they judge whether or not they are interested in that person as an employee.

I have been tremendously pleased with the attitude of the state associations in New Hampshire, in California, in Wisconsin, in Indiana, where I have been able to visit, toward this program of trying to help their members in this problem of personnel. For that reason it is only natural for us to be not surprised, indeed, that we should have 40,000 younger bankers in America studying these programs, because of the interest and enthusiasm of the senior bankers everywhere for the program.

It is only necessary for me to say that there are 65,000 young men and young women in this particular program to carry to you the message that they seriously believe and look upon as the vehicle through which they will work out their future careers.

I believe that this problem of administration of the personnel and administration of the personal forces of a bank will be largely answered through the American Institute of Banking and through the working for the standard certificate which is the criterion by which we judge the ability of the person to render service to his financial institution.

Taxation of Banks

(Continued from page 304)

$8,000,000. That is to say, this company claimed that if all of its liabilities were paid and all of its assets turned into cash, there would remain for distribution among the stockholders slightly over $8,000,000. The tax value of its assets, however, in its personal tax return in Mentor Township was only slightly more than $2,000,000. Now, if that corporation had been taxed as banks are taxed, it would have paid 2.4 per cent on slightly over $8,000,000 to the city of Cleveland. It paid 1.1 per cent on a little over $2,000,000 to Mentor Township, Lake county.

Taxed at Lowest Rate

OF course, if preferences, such as have just been described, can exist in a state where all property is supposed to be taxed upon an absolute equality, how much greater are the preferences in states which have classified property for taxation and tax property of one class at one rate and property in another class at a much lower rate.

In most states using the classified system, one finds that these quasi-banking corporations, practically all of whose assets are in the form of what is popularly known as moneys and credits, are taxed upon these assets at the lowest rate. Bank shares, on the other hand, usually pay the highest possible rate.

So to sum up this entire question of discrimination, we can say that bank shares are taxed in most of the states of the Union at the highest possible rate and at the source, while quasi-banks, either through being placed in a different class or through preferential methods of assessment or levy, are taxed at much lower rates, if indeed they are taxed at all.

Grave Evils

THIS discrimination against banks has certain grave evils attendant upon it. In the first place, the tax, being levied

as it is in all except four of the states, upon the value of the shares of the bank, the bank which is adequately capitalized is at a disadvantage in comparison with the one which is undercapitalized.

Here are two banks, let us say, with deposits of $1,000,000 in each. The one has capital and surplus of $100,000; the other capital and surplus of only $50,000. The one bank with $100,000 capital at the average tax rate of 2.57 per cent will pay approximately $2,500 in taxes. The other bank, however, with capital and surplus of only $50,000 will pay taxes of only $1,250.

There is, therefore, a deterring influence upon the safe and adequate capitalization of banks exerted by the tax methods of forty-five of the forty-eight states in the Union. Not only does this tax discrimination deter banks from increasing their capital when their growth in deposits demands it but it also deters them from reinvesting their profits by adding to their surplus account. This results, of course, in a smaller margin of safety to the depositor.

A Tiresome Job

WE, therefore, see this anomalous situation existing in nearly every state of the Union. On the one hand, we find legislatures besieged to increase the stringency of the banking laws so as to insist on adequate capital, care in operation, the building of surplus accounts and all of the other remedies which are advanced for making banks safer and on the other hand, these same legislatures are saying to the banks, "If you do these things, we will penalize you by increasing the burden of your taxes."

Anyone who points out an evil should suggest a remedy and yet it would be the height of effrontery to suggest a method by which the problem of taxation might be solved in each of the forty-eight different commonwealths in the Union. However, everywhere bankers ought to become more interested in the subject of taxation. They ought to study not only the tax system in their state, but they ought to get together with the representatives of all kinds of business in an effort to work out an equitable tax system for themselves and their fellows.

To do this, it is apparent, will necessitate changes in laws, changes in constitutions, changes in methods and means of assessment of various kinds of property for taxes. It is a long, tiresome job, but it is one which must be done if banks in this country are to continue to operate.

Behind the Procession

EACH year finds the number of quasi-banking institutions increasing. As our national life becomes more complicated, new financial needs of the people are uncovered and banks, because of their necessary conservatism, do not always care for these needs as rapidly as the people demand. As a result, someone organizes a company which does care for these needs and because this company is not recognized by the taxing officials as a bank or as performing a banking function, it is not taxed as a bank.

Much of this problem in tax discrimination against banks would not be here today if the banks themselves had kept pace with the procession. Building and loan associations, mortgage companies, finance companies, investment trusts, all have sprung into being because of a demand upon the part of the public for a certain type of financial service which banks either could not, or would not, give.

There seems to be no reason why a bank should not perform all of the functions which are performed by all of these quasi-banks. But if our law-makers are not to allow banks to make the kinds of loans that these quasi-banks make, then in all justice, they should equalize the tax burden borne by both types of institutions.

Sixty Years a Bulwark

PRACTICALLY the only means whereby banks may enforce near equality in the tax burden as between themselves and quasi-banks is through the provisions of section 5219 of the Revised Statutes of the United States. The fathers drew that statute better than they knew. For more than sixty

years it has stood as a bulwark against the excessive taxation of banks; yet today we find that practically all of the states which are taxing their banks more than the average are in Washington clamoring for the repeal or the serious modification of this section.

It must not be changed!

Under it today, any state can tax its banks adequately, fully, and, most important, equally with its quasi-banking institutions. Without it, the discriminations in favor of these quasi-banks will increase and multiply until the burden upon true banks will become so heavy as to force them out of business.

Banks Must Fight

EVERY banker should inform himself about the fight which is being made to retain 5219, and each should take an active part in that battle. Unless bankers of this country stand firm for the retention of this section in its present form, it will be changed. Mere stubborn opposition to any change will not do the trick; education of congressmen and senators to the evils which have resulted from the discriminations now existing must be used. Bankers, do that educating.

Taxation of banks must be brought out into the open and the pitiless light of publicity played upon the problem. The banks have nothing to fear and very much to gain from such an educational campaign.

Computing Interest

(*Continued from page* 305)

a reduction of the net percentage paid to 3½ per cent. But were a 3½ or 3 per cent rate to be paid, the net percentage would be comfortably below that cost even with a liberal method of computation.

"One banker, who reduced the rate from 4 to 3 per cent, has this to say: 'The writer believes it is wrong to camouflage by naming a high rate of interest and to adopt a hard method of figuring interest in order to cut the cost of interest paid. Furthermore, the method of figuring interest should stand the illumination of the light of justice as to method (the customer knows the method of figuring interest when he borrows). Then let the rate be determined by the amount the bank can afford to pay.'

"Another banker has said that a change in the method of computation will not cure the disease; a change in rate is the only solution of the problem. This has recently occurred in rather drastic and novel fashion in a midwestern state. On May 8, 1928, the State Banking Department of Kansas notified banks under its jurisdiction that, beginning July 1, 1928, they would not be permitted to pay over 3 per cent or to allow interest on any sum withdrawn between semi-annual interest paying periods.

"Some banks use two different rates of interest depending on the size of the account or the length of time the money is in the bank.

"Taken as a whole, the banks which have been most liberal have made the biggest gain in deposits but there are numerous exceptions nevertheless. Where stricter methods of computation were used or lower rates were paid in one section or city than those in vogue in other nearby localities where greater liberality was the rule, the difference in deposit growth was markedly in favor of the locality of liberality.

Net Costs Vary

"FOR example, two banks which used the most liberal method of computing interest enjoyed the highest four year gain in deposits, namely 54 per cent and 56 per cent. Two other banks in the same city using stricter methods gained but 31 per cent and 35 per cent respectively. Many similar instances could be cited. As a general rule, banks which figure interest at 4 per cent and deduct withdrawals against first deposits have a net cost of approximately 3.60 per cent up. Where they deduct withdrawals against latest deposits the net cost is from 3.75 per cent up.

"The subject of net cost of interest rates is a study in itself and a very fascinating one at that. Suffice it to say that as often as methods of computation vary so do net costs. Furthermore, paradoxical though it may seem, particularly

to commercial bankers, the steadier the balances, the fewer the withdrawals and the lesser the activity in accounts, the higher the net cost, no matter whether the method of computation be liberal or strict.

"The net cost of interest paid on savings accounts may be easily calculated. In this case a 4 per cent rate is used to demonstrate. The total average deposit liability of the bank for each month is assumed to be as follows:

January	$1,000,000
February	1,100,000
March	1,300,000
April	1,200,000
May	1,250,000
June	1,350,000
Total for six months	$7,200,000
Average per month	$1,200,000
Interest actually paid for six months' period	$ 22,500

"To obtain the actual rate paid, divide the average monthly deposits into the interest paid, or $1,200,000 into $22,500. The result is a net interest cost for six months of 1.875 per cent, for the year—3.75 per cent.

Damage to Good Will

"IT is important that banks should calculate their net cost because of the effect the net rate they pay has on their profits. The addition of each point of 1/100 of 1 per cent, such as the increase of from 3.75 per cent to 3.76 per cent, of interest paid on each $1,000,000 of savings deposits adds only $100 to the net cost. If the net rate increases from 3.75 per cent to 3.85 per cent, the additional cost would be $1,000. This increase is small and can be readily absorbed when deposits are increased; with each $1,000,000 increase in deposits, net profits should increase from $10,000 to possibly $15,000 on the $1,000,000 increase.

"The method of charging withdrawals against first deposits is, of course, cheaper for the bank but certainly more costly because of the damage it does to good will, as one banker expresses it. And banks are purchasers of good will rather than sellers of commodities, according to another.

Rarely Uniform

"STRANGE as it may seem, relatively few cities have clearing house rules covering methods of computing savings interest. As a rule, a variety of plans are found to be in use in the same city. Five banks in one city had five different systems.

"Methods of computation are rarely uniform over particular geographical areas such as cities or states.

"Massachusetts has a law regulating how interest shall be calculated but banks have discretion as to whether they shall compound interest quarterly or semi-annually and as to the rate of interest they shall pay.

Opinions Differ

"MANY by-laws relating to interest computation are so complicated that they are very difficult to understand. If a banker has this difficulty what chance has the public to do so? The survey further indicates that many banks throughout the country should review the section of their by-laws which relates to interest computation; calculation of a number of accounts produced results which did not agree with the rules and by-laws.

"In view of all the facts, is it possible to suggest a uniform plan of savings interest computation which would be universally satisfactory? Great difficulties stand in the way. None are greater than the strongly held differences of opinion existing among bankers themselves. Some believe that heavy penalization of withdrawals so discourages them that deposits are increased thereby. This is hardly consistent reasoning in the minds of other bankers who believe that to discourage withdrawals by heavy penalization is to discourage deposits. The evidence seems to favor the latter; apparently the banks which penalize withdrawals the more severely are more prone to suffer stationary or declining levels of deposit liability than the banks of greater liberality.

State Laws Interfere

"METHODS of computation as well as rates of interest paid are after all parts of an economic question. Paternalistic state laws on the question, therefore, may well prove to be an unwarranted and unworkable interference with the operation of the more basic economic law. There is no guaranty that the states themselves will adopt uniform methods. If they would not, those which pass laws specifying strict methods of interest computation may find their banks at a serious disadvantage in com-

petitive markets for savings deposits; such capital flows freely to points of largest return in these days of easy communication and innumerable outlets for investment.

"Bankers and friendly legislators should not forget that there is plenty of competition for savings deposits. But in spite of the differences of opinions and the different aims among bankers or the futility of endeavoring to settle a problem that is purely economic by the enactment of laws governing the computation of savings interest, there are other criteria to guide us in an attempt to select the most satisfactory method of such computation. The ideal method should be fair to the bank and the depositor and profitable to both; it must be easy for the depositor to understand. One would suppose that the methods in most general use would vary so little that they would meet the requirements.

"The survey, however, shows such a great variation in the results obtained that it is doubtful whether any of the most popular plans would be universally fit. For example, the plan which numbers among its adherents the greatest number of banks, one hundred eighty-one in all, requires the charging of withdrawals against first deposits; figuring interest on semi-annual basis, these one hundred eighty-one banks paid $17.90 on the four accounts. One hundred seventy-two other banks figuring interest semi-annually on the minimum monthly balance paid $99.30. One hundred sixty-five more banks figuring interest semi-annually and charging withdrawals against latest deposits, paid $53.08."

Better Banking

(*Continued from page 307*)

or More," as the basis for intelligent credit extension.

With the growth in size of banking institutions, a more complex organization has made impossible the intimate informal and personal relationship that existed in the small one-man bank of a decade or so ago. The customer now is not assured of being served by the same bank officer as he was in the old days, nor can conflicting advice and commitments be avoided without the definite record furnished by the credit file.

The Personal Hunch

THE assumption of responsibility of the bank directors is further facilitated by the operation of these files, and the work of the bank examiner is expedited in the classification of paper.

The credit file should, of course, be merely an aid to the banker, showing pertinent facts regarding the customers' financial relationships; it cannot be a substitute for the banker's experience, knowledge and personal information. But the banker of today must be enabled to substitute a reasoned judgment for the personal hunch of the banker of yesterday.

A survey made two years ago by the State Bank Division revealed that in few states were credit files mandatory. A re-survey just completed shows almost nation-wide results have been obtained. At the present time thirty state bank commissioners either require or urge the banks under their supervision to demand that borrowers have financial and personal property statements attached to all unsecured loans of $500 or more.

Will Show More Earnings

THE efforts of the division are being devoted through its Committee on the Federal Reserve System to a continuation of the campaign of education in interpreting the constructive and beneficial features of the Federal Reserve System to our state bank membership, which is resulting in a better understanding and appreciation of this great financial machinery that has so immeasurably strengthened the entire banking and credit structure of the nation.

I wish particularly to call attention to the requirements of Bank Commissioners Veigel of Minnesota and Bone of Kansas in reducing rates of interest to 4 and 3 per cent within those respective states. This, too, may be the beginning of a uniform practice, the consequences and results of which we shall all eagerly await. At the moment the results of these rulings are not available, but will undoubtedly be made known as soon as any conclusions may be drawn.

In Kansas a survey was made by the bank commissioner before the rule was promulgated, and the questionnaire revealed a large majority of the banks as favoring such action. A few bankers, however, felt that it would cause a reduction in the earnings but I predict with confidence that it will show a material increase instead.

Is It Necessary?

THERE is just one more topic to which I wish to call attention, the need for adequate reserves: first, for secondary reserves of marketable bonds and commercial paper to take care of the seasonal as well as the day to day demand. No army would enter the fighting field with only its front line trenches armed. There must be reserve forces within call to care for the emergencies of battle. Similarly the conservative banker has back of his legal cash reserves his second line defenses in the form of liquid paper. Is it necessary? Perhaps not. But bankers have little use for that qualifying word "perhaps," and for many a bank these secondary reserves saved the day in 1920 and 1921, when the first line reserves were all drawn off as the flares of panic loomed on the horizon. No bank ever failed which had on hand 20 per cent of its deposits in marketable bonds and commercial paper in addition to its primary reserve of cash and sight exchange.

Then there is that other reserve—consisting of ample surplus funds and undivided profits to care for losses which otherwise would be a charge against capital stock.

Clamored in Vain

THE importance of these reserves was illustrated by O. M. W. Sprague, dean of American banking scholars, when he recounted the experience of the sagacious head of a family grain company who, when prices for grain soared 100 per cent in 1918 and 1919, insisted on maintaining the usual dividend of $10 a share, while his stockholders, largely members of the family, clamored in vain for a larger share in the fast accumulating profits.

"But prices may go the other way," retored the company's head, "so these profits may not be ours—they may not really have been earned at all."

He was as immovable as Gibraltar. And to good purpose, for in the decline which followed, the company in the natural course of events lost $130,000. But the old man was prepared. His house was in order and when the bottom of the deflation had been reached he knew the worst was over. Then, and only then, he counted his profits and that year declared a dividend of $35 a share.

Many a by-gone bank would be in operation today had adequate reserves been built up in times of prosperity to care for the dark days which invariably follow.

These are only a few of our problems as they exist today. New men and new enthusiasm are needed for the task. Let us take time occasionally to back off from our desks to see the guiding fundamentals that underlie our banking system.

Banking is today becoming a profession, and those who would engage successfully in its practice must keep constantly on the search for better methods, for those who do not progress are lost, and he who would keep pace with better banking must discard the old and adopt the new. Such is the teaching of history which we shall do well to heed. The difference between old-time banking and the emerging profession of business today is the result of the effort to establish guiding principles, underlying fundamentals, recognized by the leaders of banking and finance, as being the guides to navigation in a previously uncharted sea. Let us sail not by the charts drawn by our forefathers, in the early days, but rather by the new and brighter beacons appearing on the horizon, here and there, along the way to "Better Banking."

Group Subscriptions

The Group Subscription Plan enables banks to provide each member of its staff and each of its directors with his own individual copy of the AMERICAN BANKERS ASSOCIATION JOURNAL.

This magazine each month conveys to the readers many facts, opinions and suggestions that will make him more useful to his institution and more useful to his customers.

Placing the Farmer on the Payroll

(*Continued from page* 322)

ket and thereby reduce the price to where it is unprofitable." In answer to this I want to remind them that they have never stopped on producing too much corn, cotton or wheat. In my opinion, this generation need not worry about over-producing dairy and poultry products. We are not yet supplying home consumption and we are still behind several other nations in the amount consumed per capita of these products. I want to emphasize the fact that when a farmer has good cows and chickens he is first supplying his own family with the best of food.

Time to Get Together

PROSPERITY follows the dairy cow and whenever she has been given a fair chance, with good care, good results have followed. Prosperity to the farmer means greater educational advantages, more pleasant and agreeable community life, more comforts and conveniences, more automobiles, radios, telephones, phonographs and pianos, better homes and better churches and more money in the bank.

To promote the dairy interests of any community requires intelligent assistance both in time and financing, but when once the dairy industry is firmly developed permanent agricultural prosperity is assured.

The time is here—and opportune—for the farmers, bankers and business interests of every community to get together with the agricultural extension forces of their respective states, study the needs of their several communities, and get behind a plan that will bring about a realization of their ideas of safe farming.

The real truth about the situation is that the banker has not been sold to the question of safe and sane farming. Most of the bankers have been willing that the farmers should practise a one-crop system, and have loaned him money to follow such plans.

Old Way Unsafe

THE income from the cow and chicken looked small to the banker in comparison with the large check for his one crop—once a year, and it usually takes all of the check to liquidate the farmer's debt to the bank or merchant, and when that debt is paid he immediately starts to borrow on next year's crop. Such farming and financing is economically unsound. In our country we have many farmers who finance the expense of their crops from the sale of milk or cream and poultry products, and have their cash crop as a surplus.

Study of the situation in different communities will disclose that those farmers who are raising their food and feed and have good cows and chickens, supplying their own families and selling the surplus eggs, milk or cream, have generally grown more prosperous and are less embarrassed by debt.

Informal meetings of bankers and leading farmers of various communities should be held frequently in order to obtain each other's point of view and cooperation in solving farm problems, especially farm credit and marketing. These meetings will be mutually profitable and will draw the farmer and banker closer together. The banker should encourage legitimate agricultural development by making loans to farmers for farm improvements and purchase of pure bred or high grade cattle, hogs and poultry, where the farmer is worthy of the credit. The bankers will find the county agent and home economics agent anxious to cooperate with them. If diversification is successfully carried out the bankers and business men must cooperate with the farmers and extension forces.

Farming in the old way is unsafe; any one who continues to follow it will eventually become financially embarrassed.

Growing a crop continually on borrowed capital is unsafe and the sooner the farmer realizes that if he will operate his farm through a monthly income and make his cash crop a surplus crop, the sooner will prosperity come to him.

National Bank Aims

(*Continued from page* 326)

The experience of the last few years in some sections of our country, where banks found their assets not readily marketable and, in some instances, not marketable at all, should be a lasting reminder of the danger of such a policy. The National Bank Division has sought to stimulate a more wholesome recognition of the value of a substantial secondary reserve and of the importance of maintaining that safeguard, and it seems highly desirable that the campaign be continued.

In the business of national banking trust work has come to be an important part. It is of comparatively recent origin, but the conditions essential to its proper reception were so highly favorable that it dovetailed into the operations of national banks with an aptitude which marked it at once a desirable and a feasible adjunct. Its rapid growth has proved its usefulness.

Approximately 2,400 national banks are authorized to perform trust work, and more than 1,500 of them are so engaged. About 30,000 individual trusts are being administered. The assets of the individual trusts amount to considerably more than $1,000,000,000, and the corporate trusts approach closely the $3,000,000,000 mark.

The field within which they operate is literally without limitation. Each year new uses are found for the services of corporate fiduciaries, and each year their availability and their suitability become known to a greatly increased number of potential clients. Notwithstanding this, clearly the most urgent need of corporate fiduciaries is a wider diffusion of the knowledge of the advantages their administrations carry. With the great variety of functions they perform, and the high degree of proficiency they have attained, they are destined to minister in the future to the needs of a much larger number of persons than are now served. I counsel only a strict observance of the very exacting statutes and regulations governing the myriad of details of trust work. Perhaps in no other department of a bank are success and public goodwill dependent so much upon the care with which each act is performed. The fame of corporate fiduciaries rests largely upon their thoroughness and any relaxation of that essential characteristic would retard immeasurably their usefulness and their growth.

Situation Critical

FEW subjects transcend in importance the problem of taxation. Taxes are a burden and recognized as such. Their equitable apportionment is an exacting task which can be accomplished in a just manner only through a careful and unbiased study of the numerous factors involved. I want to emphasize the necessity of making the position of banks understood. I am convinced that those whose duty it is to frame our Federal tax laws want to deal fairly with banks and with all other classes of property. However, in some states in which the protective features of the Federal statute have been violated the taxing authorities are urging that those protective features be swept away, thus allowing the discriminations to continue legally.

The record of state taxation of banks shows unmistakably the value of the restrictions carried in Section 5219 of the Revised Statutes of the United States. Therefore, the persistent efforts being made to break down those limitations call for vigorous action. The situation has become critical, and it is our responsibility to guard against the creation of an incorrect understanding in the light of which the work of those who seek to weaken the Federal safeguard against excessive state taxation might seem to be justified. It is the duty of each one of us to be alert and aggressive in presenting the real facts fully, and with that done we can await with considerable assurance the pronouncement of Congress.

Currency An Asset

CONTINUOUSLY since the establishment of the national banking system the issuance of circulation has been a prerogative of banks chartered thereunder. It served an eminently essential purpose and was regarded as a function permanently incident to and inseparable

from such banks. It was the chief of numerous distinctions between them and banks organized under state laws, and today it is about the only remaining difference. Banks prize the privilege and the withdrawal of it would remove another incentive for the choice of a national charter.

Notwithstanding this feeling there is about the future of circulation an uncertainty which has aroused widespread concern. For some time there have been rumors that those in control would be willing to retire the government bonds upon which circulation rests. Obviously this cannot be accomplished fully until 1930, but if it should be decided upon then national bank notes would consequently disappear entirely. The great majority of national banks, approximately 85 per cent of them, still issue currency. It is an asset to them and to the Government alike, and its soundness cannot be assailed. Neither economic nor financial considerations call for its retirement and if national banks would preserve circulation they must fight for it.

Members of the National Bank Division, in annual convention, have continually voiced their desire that the issue feature of their banks be not annulled. Its preservation has been one of the aims of the division and it expects to continue its efforts.

State Bank Reserve

(*Continued from page* 318)

Do not think that I am inferring that all bank troubles come from high reserves, but I honestly contend that where a state demands of its banks something which is not demanded of their competitors it places the state banks at a disadvantage where, in their desire to be successful in their banking, mistakes of judgment are likely to occur.

Let me urge serious consideration of the following points:

The necessity of uniformity of reserves among states;

The wisdom of placing state bank reserves on about the same footing as national banks;

The justice of making a distinction in reserve requirements between reserve and non-reserve banks.

The idea of requiring different reserves for the several classes of deposits.

The advisability of granting permission to invest a part of reserve in obligations of the United States and of the state, and possibly a small percentage in obligations of the municipalities in the state of a very select class.

Bank Travel Bureaus to Meet

THE Association of American Bank Travel Bureaus will hold its annual meeting in Chicago on Nov. 12 and 13 in conjunction with the International Travel Show at the Sherman Hotel. Exhibits of travel bureau equipment and discussions of bank travel bureau technique are counted upon to give the meeting high informational value.

Country Bank Investment Policies

(*Continued from page* 329)

Another Step

THESE are questions of the most vital importance to the bankers, city as well as country, but as I have previously pointed out, it is difficult for the country banker to find time to study the question. Of course, he should certainly study these problems as intensively as he can but he should take another step upon which I place great emphasis and which I desire to emphasize as a solution and that is he should communicate with his correspondent bank and ask its aid and assistance in making his investments.

To do this he should at once stop buying his securities promiscuously from every "Tom, Dick and Harry" salesman who calls at his bank. His correspondent bank will not only offer him every assistance in his problems but it will recommend to him high class security investment houses from which he may deal with safety. Moreover, the correspondent bank or a good investment house often offers a service which is valuable, that is the analysis of the bank's security holdings. An analysis of this sort which is of great value to the banker is one which analyzes his reserve and investment needs and measures his actual situation against these requirements. Such an analysis when intelligently and conscientiously made is invaluable to a

banker in dealing with his problems. Such an analysis may perhaps be new to many bankers but they are being made.

With this purchasing problem solved, the country banker is better equipped to deal with his clients, and in this connection he must consider two main points:

Yields a Profit

FIRST: The possible profit to be gained in the selling of investment securities.

I have touched on the cost of distribution of high grade securities to banks as compared with possible profits to be gained by handling these securities by the large underwriting and distributing houses and this applies equally well to the sale of securities to individual customers outside of the large centers. The country banker, however, is not confronted with the same large costs of retail distribution as the big city house in its efforts to reach the purchaser. The bank's clients are constantly coming in its doors and while there the wise banker can make his sale to them without the necessity of special salesmen and heavy traveling and advertising expenses.

The country bank of moderate size which has built up a substantial security business in this way can obtain wholesale prices from the distributing syndicates. The smaller bank can frequently make arrangements to sell off of the list of its correspondent city bank or some high grade investment house subject, of course, to confirmation. The profit, naturally, is smaller but the country bank by so doing ties up none of its funds and assumes none of the risk. Here is a field of operation which yields a profit to a bank, provided, and this provision is most important, it sticks to sound lines.

High Pressure Selling

SECOND: Service and duty to the community.

Country banks owe a real service and duty to their community in seeing that the funds of the community go into safe investments. The same houses whose salesmen are forcing the banks into buying poor securities are selling the same securities to the people in the community which the bank serves. The outcome is often the loss of personal fortunes on the part of the individual and loss of finances to the community from which the bank must inevitably suffer as well as the loss to the bank of the profit which it might have made by selling good securities itself to its clients.

The country banker has a real personal interest as well as a duty to his community to combat the losses which result to his client—actual and potential—from unsound securities being sold in his community by high pressure selling organizations of dubious standing. The slogan, "Consult your banker before you invest," should be more frequently used by the country banker and in this connection he should really wage a campaign of education. There is great need for it, as is evidenced almost daily by the experience of the Treasury Department in listening to the stories of those who have been deprived of part of their life savings by the exchange of their Government securities for worthless securities.

There is one other phase of the duty of banks to the community they serve, upon which I desire to touch. Banks which have trust powers should not become trustees for security issues of doubtful value. An example of the effect of such practice was most vividly brought to my attention when I found in one case that twelve banks had purchased doubtful or worthless securities—the sole reason for such purchases being the fact that a large bank was named as trustee. The purchases in this case resulted in the failure of three of the banks. When the name of a large bank or trust company as trustee is dangled before the prospective customer, it is often the deciding factor in the purchase of the security offered. When that security is of dubious character it reflects no credit on the bank.

State Bank Division

(*Continued from page* 306)

the National Bank Act, so to a large extent is it possible for state chartered institutions to operate under uniform banking laws. While absolute and exact uniformity of banking laws in all the states is doubtless impossible to secure and would be unwise if secured, for one of the elements of strength in state banking laws is their adaptability to the special business needs and conditions prevailing in the several states, nevertheless it is generally agreed that there should be a high degree of uniformity as regards the fundamental principles of banking, bank organization, regulation and supervision. Therefore, in the belief that a greater degree of uniformity in the banking laws of the forty-eight states would do much to prevent confusion in the public mind and add greatly to the development of sound banking, we reiterate our previously expressed view in advocacy of greater harmonization of the banking laws in the several states and urge that continued effort be made to secure the greatest possible degree of uniform and efficient state banking services. To this end, we urge that the important office of state bank commissioner be made as free from entangling partisan politics as the judiciary itself and that it be divorced from all other functions of state government. We are convinced that the tenure of office of the bank commissioner should be made more secure and lasting with salary and functions adequate to attract to the office and retain the services of men of outstanding executive ability, courage, resourcefulness and successful banking experience. We further believe that to men of this type larger discretionary powers in the administration of the state banking laws may safely be given."

Interest Rates

(*Continued from page* 297)

timid bankers, who well knew that they should reduce, an opportunity to do so and at the same time square themselves with their depositors and some directors by passing the buck to the department. The Minnesota Bankers Association unanimously endorsed this order.

We then wrote to the Comptroller of the Currency, from whom we have always had the finest kind of cooperation, and he mailed the following letter to all national banks in Minnesota:

"The Commissioner of Banks of Minnesota has issued a circular to all State banks prohibiting them from paying more than 4 per cent on savings deposits and on certificates of deposit issued or renewed on and after July 1, 1928, and he requests the cooperation of the national banks in reducing the rate. The Comptroller is sympathetic to this movement, and will appreciate the cooperation of the national banks with the State banks and banking department as requested."

Whatever Is Necessary

R. L. BONE, bank commissioner of Kansas, under a specific State law, has fixed the interest rate paid at 3 per cent. A Virginia law fixes the maximum rate at 4 per cent.

As far as we know, all State banks in Minnesota have complied with our order and are well pleased with the results. We know of only two national banks which are still paying five per cent. We feel that much good has been accomplished by this order.

Laws necessarily cannot cover all matters which continually come before the bank supervisors for decision. It seems to me that bank supervisors owe it to the public and to the depositors to do whatever is necessary to improve the banking situation, even though there may not be a specific law governing all cases. It is clearly the spirit of all banking laws that bank supervision should stop, before it is too late, all practices which are not in accordance with sound banking principles.

The Coast Trust Conference

The Sixth Regional Trust Conference for the Pacific Coast and the Rocky Mountain States—under the auspices of the Trust Company Division of the A. B. A., and the Associated Trust Companies of Central California—will be held in San Francisco Oct. 17-20.

The State Secretaries Section

(*Continued from page* 354)

crime cost the American people twenty-four times as much as the war of 1812.

The Other Man's Job

"WE are having war right here in times of peace, too. We do not pay much attention to it. Everyone looks at it as the other man's job. As a result, in the first eight years after the war there were 86,000 homicides in America, and that was 30,000 more American people than died in battle in the World War.

"There are 200,000 men in our jails today. Do you know that is three times as many American citizens as 5,500,000 foreigners were able to capture from America during the World War?

"Do you know, that counting all the avenues of expense of crime in peace officers, alms houses, penitentiaries, bureaus of identification, and thousands of other things, crime has cost the American people more than the United States Government, estimated between $5,000,000,000 and $6,000,000,000 annually.

"There are some ways that we might help to prevent this thing, though we may never be able to stop it entirely. We can pass more stringent laws, and we are now about to arrive at our legislative period in most of our states where this ought to receive some attention."

Registered Mail

IN the direction of greater safety in the transportation of funds and securities by mail, the Section adopted a resolution favoring the rescission of present postal regulations which require the addressees of registered mail believed to contain large sums of money to call at the post office for them instead of receiving delivery. The resolution follows:

"Resolved, That the incoming president of the Section bring to the attention of the Administrative Committee of the American Bankers Association the discrimination against banks that results from the operation of Section 1043 of the Postal Laws and Regulations of 1924, which provides that 'when there is reason to believe that registered mail contains large sums of money or securities which could not be delivered by carrier without unusual risk, the addressee shall be requested to call for it at the post office,' and that we respectfully request the said Administrative Committee to use its influence to bring about the rescission of this section."

Standard Report Forms

(*Continued from page* 299)

tive officers. Supervising authorities without exception have insisted upon closer supervision by directors.

We are quite sure this form suggested and herewith presented will be of distinct help in bringing to the directors of a bank a view of the bank's condition, with a comparison of that condition as it was a month before and a year before. We are also very sure that the banks that adopt and use this form will be better banks, more profitable banks, and safer banks.

Resolutions

(*Continued from page* 361)

Philadelphia for the manifold kindnesses and gracious hospitality extended to all of the delegates and their families. Likewise, the association is indebted to the speakers at the various sessions of the convention, divisions and sections, who by their carefully prepared addresses have helped to make the fifty-fourth annual convention of this association one of profit and enjoyment to all those who were privileged to be present.

Committees and Commissions

(*Continued from page* 366)

Ohio—W. A. Ackerman, vice-president, Knox National Bank, Mount Vernon.

Oklahoma—H. N. Wilson, cashier, First State Bank, Bokchito.

Oregon—E. C. Sammons, vice-president, United States National Bank, Portland.

Pennsylvania — George W. Reily president, Harrisburg Trust Co., Harrisburg.

Rhode Island—A. R. Plant, president, Blackstone Canal National Bank, Providence.

South Carolina—J. M. Kinard, president, Commercial Bank, Newberry.

South Dakota—Dean H. Lightner, president, Citizens Trust & Savings Bank, Aberdeen.

Tennessee—Joseph P. Gaut, director, East Tennessee National Bank, Knoxville.

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Utah—L. H. Farnsworth, chairman of board, Walker Bros., Salt Lake City.

Vermont—J. E. McCarten, president, National Bank of Newport, Newport.

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Washington—R. M. Hardy, president, Yakima National Bank, Yakima.

West Virginia — Oscar C. Wilt, cashier, Empire National Bank, Clarksburg.

Wisconsin—L. Albert Karel, president, State Bank of Kewaunee, Kewaunee.

Wyoming—S. Conant Parks, president, First National Bank, Lander.

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Rhode Island—A. R. Plant, president, Blackstone Canal National Bank, Providence.

South Carolina—J. M. Kinard, president, Commercial Bank, Newberry.

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Washington—R. M. Hardy, president, Yakima National Bank, Yakima.

West Virginia — Oscar C. Wilt, cashier, Empire National Bank, Clarksburg.

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Public Education Commission

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis., chairman.

William R. Carswell, assistant vice-president, Market-Ellis Branch, Anglo-California Trust Co., San Francisco, Cal.

W. J. Evans, Federal Reserve Bank, Dallas, Tex.

R. S. Hecht, president, Hibernia Bank & Trust Co., New Orleans, La.

Albert S. Puelicher, assistant vice-president, Marshall & Ilsley Bank, Milwaukee, Wis.

P. R. Williams, vice-president, Bank of Italy National Trust & Savings Association, Los Angeles, Cal.

C. F. Zimmerman, secretary, Pennsylvania Bankers Association, Huntingdon, Pa.

Secretary—Richard W. Hill, New York, N. Y.

Public Relations Commission

Charles Cason, vice-president, Chemical National Bank, New York, N. Y., chairman.

M. E. Holderness, vice-president, First National Bank, St. Louis, Mo., vice-chairman.

R. P. Brewer, president, First National Bank of Tulsa, Tulsa, Okla.

William G. Edens, vice-president, Central Trust Co. of Ill., Chicago, Ill.

J. Arthur House, president, Guardian Trust Co., Cleveland, Ohio.

Arthur W. Loasby, president, Equitable Trust Co., New York, N. Y.

W. R. Morehouse, vice-president, Security Trust & Savings Bank, Los Angeles, Cal.

Edwin R. Rooney, vice-president, First National Bank, Boston, Mass.

Francis H. Sisson, vice-president, Guaranty Trust Co., New York, N. Y.

Director — Gurden Edwards, New York, N. Y.

Vice-Presidents for Territories

Alaska—J. R. Heckman, president, Miners & Merchants Bank, Ketchikan.

Canal Zone—George S. Schaeffer, manager, Chase National Bank, Cristobal.

Hawaii—H. G. Dillingham, president, Army National Bank, Schofield Barracks, Oahu.

Philippine Islands—M. H. O'Malley, president, Philippine Trust Co., Manila.

Porto Rico—To be elected at their convention.

Condition of Member Banks

ON June 30, the date of the latest member bank call report, loans and investments of member banks of the Federal Reserve System were $35,498,000,000, showing an increase of $1,354,000,000 since Feb. 28 and of $2,531,000,000 since June 30, 1927.

Growth in the volume of member bank credit between the end of February and the end of June reflected chiefly an increase of $1,185,000,000 in the banks' loans, which have advanced almost without interruption since the spring of 1922. Investment holdings also showed some further increase during the period and constituted on June 30 more than 30 per cent of total member bank credit. This proportion was not far below the highest reached since the middle of 1919.

The Trust Company Division

(Continued from page 337)

"The efficient management of trust funds made possible by this mechanism; the flexible nature of the plan that permanently preserves the utility of each fund from the grip of the dead hand; and the recognition that has been given to the effectiveness of the Community Trust by the legal fraternity, the banking profession and the public at large demonstrate that we have another example of the ever-widening field of usefulness of our trust companies and other corporate fiduciaries."

The Welcome

THE Trust Company Division was welcomed to Philadelphia by William P. Gest, Chairman of the Board, Fidelity-Philadelphia Trust Company, Philadelphia.

"Philadelphia is a city of conventions," he said. "It was here that the organization of the American Bankers Association, begun in 1875, was finally completed in 1876. At that time the Centennial Exhibition was celebrating the Declaration of Independence—an event followed in this city by the establishment in the Constitution of those principles of freedom which have been the foundation of our greatness, which have made such great associations as this possible—the principles which teach the world that the individual must be free if the state is to be great; that civilization is impossible without political rights, and that to this end property must be protected as well as created.

"In 1876 we celebrated a century of achievement in the ideals of humanity. Now we have burst into the glare and speed and wealth of a new century full of achievement in the material world. These conditions are fundamentally due to an increase of population and of power. Land areas grow smaller in proportion, distances decrease, individual presses on individual, nation upon nation. The same forces which have produced the international convulsions of our time have had their more minute repercussions on our business life. The sudden gift of power, its growing weight and the acceleration of its increase threaten, like a vast machine rocking its foundations, to destroy the principles that gave it birth. Mass administration tends to take the place of detailed personal administration. Additional duties increase the expense of administration, the margin of profit decreases, and competition sharpens.

"As profits rest on a narrower margin, the trust companies increase their efforts in two directions, first, to extend into wider and wider fields, and, secondly, to administer in adequate detail what is acquired in bulk. Standardization comes to combat multiplicity. Accordingly, we have recourse to mechanics.

"All of old made,
Now is mould made
On one dull mechanic plan."

"We have now a dozen machines where fifty years ago the nearest approach to one was the letter book press. One of our large trust companies, indeed, according to tradition, started years ago without even a letter book press. The letters were copied by the young gentleman who afterward became president, sitting on the letter book.

"Under these circumstances it becomes increasingly difficult to color our daily contacts with the graces which formerly more frequently adorned our business intercourse. This particularly affects the trust officer; for we think of him as one who, in prompt but deliberate fashion, in a scientific way directs and advises his clients. His position is more nearly akin to the learned professions in the skill, prudence and knowledge required, and the mutual confidence between the parties. Each estate has its own needs and its own conditions, intractable to mechanical methods. The trust officer never knows what personal service he may be called upon to render.

"I have myself been sent to another

city by a client who thought, for some reason he did not state, that he was to be found a lunatic. I have been sent down the Delaware River to find whether a particular property was used as a base for smuggling, and once we saved a man who thought he wanted to commit suicide—and what do you suppose he did to show his gratitude? He went into aviation. He only succeeded in breaking his leg at that occupation, until a natural death relieved him from the necessity of further guardianship.

"But the new situation has affected values as well as methods. The trust officer does not feel so sure of the rights he is called upon to protect. A legal pragmatism seems to be succeeding a philosophical pragmatism; precedents, like individuals, press each other into insignificance; constitutional sense is dulled and the disregard for precedent is paralleled by an indifference to law in the body of the people. Policy intrudes upon principle and a default insured against is a default pardoned.

Changes Disturb

"TO those to whom liberty is more than comfort, and business success more than the pursuit of wealth, these changes disturb with the thought that Democracy has acquired new tools which it has not yet learned to handle.

"Bureaucracy seizes the reins, and with it comes an increasing centralization, for the two naturally go together. When the Centennial Exhibition was held we seldom went to Washington unless we were convinced that the time had come for an appropriation. Now we are called to the Capitol City from the four quarters of the land to settle our taxes, to have capital issues approved, to discuss our trade policies, explain our correspondence, and even to learn what rate of interest is favored for particular districts in the seats of the mighty. Power is delegated and redelegated until regulations pass for laws and move about as fast, and are administered in as many different directions as an office chair. De Tocqueville foretold this event when he described 'the people perpetually falling under the control of public administration—led insensibly to surrender to it some further portion of their independence—till the very men who from time to time upset a throne and trample on a race of kings bend more and more obsequiously to the slightest dictate of a clerk.'

"The case in which this centralizing tendency has most affected our association was the extension, some ten years ago, of trust powers to national banks. But there are instances too numerous to mention in which it will, from time to time, make itself manifest. The anti-constitutional view will in general be finally carried, unless the legislature itself retains a constitutional conscience. Every citizen is in favor of the government keeping hands off, unless he can guide the hands, and so it happens that in the innovations of legislation there are generally more interested citizens urging the change than there are disinterested citizens opposing it.

"Another great change in trust company management is caused by the increase of defaults. This has brought with it a corresponding increase in insurance of fidelity and a broadening of auditorial practice. A company in Philadelphia, for instance, fifty years ago employed perhaps one auditor with a clerk or two, and was subject to only one official examination. Now it is found necessary to duplicate or check its entire accounting system. The companies in Philadelphia are subject to a county audit through the courts; a state audit by the banking department; a Federal audit by the Reserve Bank as well as a clearinghouse audit if the company should be a member of that body.

"If the changes I have spoken of have made administration more difficult, they have made conference more necessary; but I have trespassed already too much on detail. I cannot close without mentioning the greatest benefit of these conventions, one which renders your presence especially welcome—that is the enduring friendships which are born and nurtured here. It is a great encouragement for a member of this Association to know that he can go to any city in this broad land, and that there he will find his associates, men of honor and experience, with whom he may confer helpfully and confidentially.

Strength of Democracy

(*Continued from page* 280)

and advantages to which in common with his fellow citizens he has a natural right.

"Therefore, be it enacted by the General Assembly of Virginia, that all men shall be free to profess and by argument to maintain their opinion in matters of religion, that the same shall in no wise diminish, enlarge, or affect their civil capacities."

As I read those yellowed pages, the thought came to me that that old philosopher of democracy, Thomas Jefferson, when he wrote that statute with his own hands, was placing them there not only to cure existing evils and ills of a young state about to be born, but with the thought that they would lift up your hearts and mine in other and after ages if that central faith in your public should ever again be assailed, and that they would stand there as a rebuke and a stumbling block to those who would assail it.

The greatest task of the future, upon which the whole experiment depends, will be to train properly this vast electorate and infuse in it a saving sense of its power and responsibility. It has mitigated myriad forms of social injustice. Two thousand laws in the last two decades have been passed to effect the betterment of the laboring classes. It has given birth to and introduced into the realm of practical politics a new philosophy—we may call it collectivism, for convenience—which treats society as an organism and studies it, informed by intense sympathy and a scientific spirit and manifesting a distinct genius for organization and cooperation.

Not Hurling Epithets

IT has developed a touching and sublime faith in the power of education, illustrated by spending nearly a billion dollars a year in the most daring thing that men have ever tried to do, to fit for citizenship every human being born within its borders. It has increased kindness and gentleness in social relations, and thus diminished the fury of partizanship.

Herbert Hoover and Alfred E. Smith, both brave, honest, able, patriotic men, are not hurling epithets at each other in 1928. Democracy has preserved the form of the union through the storm of a civil war, and somehow revealed power to touch with healing unity and forgiveness its passions and its tragedies.

It has conquered and civilized a vast continent. It has fought wars and reduced to absurdity the claim that democracies cannot make war by never losing one. It has made itself such a symbol of individual prosperity, it has so stimulated inventive genius and business enterprise, by penetrating every land and sea with its commerce, that men, not merely blatant boasters, gravely predict the disappearance of poverty from our life. It has brought to some sort of American-mindedness millions of every race and creed. It has permitted and fostered the growth of a public press of gigantic power, reflecting, let us confess, the crudities and impulses of a vast and varied population, but charged with a fierce idealism and a staunch patriotism, despite the pessimism of Mr. Andre Siegfried, the latest and ablest of commentators upon American institutions. It has developed a social consciousness and a volunteer statesmanship among its citizens, as manifested more strikingly than elsewhere in the world, in great educational, scientific, philanthropic and religious societies which influence and mold society. It has brought it about that private citizens in America, in 1927-28, gave away $2,300,000,000 for public welfare. It has developed great

agencies of higher education and culture, striving bravely, no matter what professional cynics and sneerers may say, to temper the force and materialism of the age, created by the union of science and machinery with canons of excellence and beauty and good taste and self-restraint.

Vain Dreaming

IS this a record of failure? What monarchy or autocracy has ever done a tithe as much? What substitute is proposed? Shall we embrace Sovietism or Fascismo or centralized plutocracy? Was England, our great sister democracy, a freer and happier civilization under Elizabeth and James I, 1600-1618, or under the oligarchy which ruled her during the Napoleonic struggle, 1800-1818, than she was under Edward VII and George VI, 1900-1918?

Compare these periods, as a thoughtful scholar, Edward P. Cheyney has recently done in the five tests of good government—the financial test, the military test, the test of wisdom in dealing with dependencies, the test of favor to learning and letters, and test of humane feeling—and see which gives the best account of itself.

Are we solemnly to renounce an experiment in self-government with this record of achievement, to set aside as vain dreaming the Bill of Rights, the Declaration of Independence, the faith in men that informed the pen of Thomas Jefferson and the fathers of the republic because faults exist? because Babbits chatter and banalities masquerade as wit? because taste lacks refinement here and there in a vast heterogeneous society, and because mass production and standardization are to the fore in the present mood of many men? because, forsooth, it is claimed that distinction does not sit upon the brows of democracy?

Babbitry International

THE genius of Sinclair Lewis has created Mr. Babbit as a sort of symbol of democratic banality. I acknowledge his presence in our society. I often undergo the discipline of his acquaintance. But I do not think him peculiar to America. He is a universal human phenomenon. He is international, not local.

Matthew Arnold used to rail against him in England and call him a Philistine. The French have acquaintance with him, but their fascinating tongue places him among the "Bourgeoise." I do not know what Germans call him, but he is to be seen in the Fatherland. I have fled from him there. For my part, I believe he was to be found in Athens in the Periclean Age. Our Babbits may be more tiresome and grotesque, but perhaps less sunk in stagnation and sordid self-satisfaction than the brand of other lands.

Never Clear of Danger

I WELCOME the attacks on democracy. One can and ought to discriminate between the jaunty sneerers and

the self-appraised intellectuals and the honest critics. Democracy, like a man's character, is never clear of danger. The finer life of man or nations is like the flight of a bird in the air. The bird is sustained only by effort, and when he ceases to exert himself, he falls. It all comes to this—that democracy has its faults and patriotic men should seek to discern and eradicate them, but the main issue remains untouched, which is that democracy refined and improved as generations succeed each other, is the earthly hope of man in society and government, and they who stand apart in fancied superiority to mankind are foolish withdrawers from the ways of life.

More Than Imperial

FEW great issues, in a whole century, have been brought to wrong conclusions in American democracy. Our public life has been starred with illustrious names famous for honesty and humanity, and above all, for justice. Our Presidents in particular, have been such men as democracy should breed. Some of them such men as humanity has seldom bred.

From George Washington to this present hour, the line of American Presidents has surpassed in character, ability and devotion any line of kings and prime ministers in modern history, and the great office still wears a more than imperial quality to touch the imagination and enlist the faith of mankind.

There is comfort in the thought that the candidates of both the major parties in our system for whom we shall cast our votes in November are ideally in line with the great tradition. Born and bred in humble homes, the one in the old rural fashion, the other in the city streets, by sheer force of ability, character and courage, they have lifted themselves to the supreme honor of American citizenship—the right to contest for the presidency as leaders of millions of their countrymen.

Like Christianity

THE business of American democracy, indeed of world democracy, is not to abandon it or to boastfully glorify it, but to be loyal to it and understand it, and enrich it so that not only freedom but excellent, and how to judge it; beauty, and how to enjoy it; art and letters, and how to incorporate them into our civilization, "shall broaden slowly down from precedent to precedent."

Democracy, like Christianity, whose noblest offspring it is, is a prophecy, and looks to the future. Its faith is the substance of things hoped for and the evidence of things unseen whose realization will be the labor of long ages of subjecting ourselves to tests and disciplines that will bring it to pass.

Organizing a Democracy

IN order to organize an autocracy, mighty rulers simply ordain that it shall get in order, announce its ideals, and publish them as bulletins. In order to organize a democracy, we must organize its soul and give it power to create its own ideals. How is that to be done in a democratic world revolutionized by science and urban life? My answer is through better training in our schools, a keener search for excellence in individuals and a return to the conception of public duty which guided the sword and uplifted the hearts of the founders of the republic.

The right to vote, for instance, implies the duty to vote right; the right to legislate, the duty to legislate justly; the right to judge about foreign policy, the duty at least to know something about it; the right to come to college, the duty to carry oneself handsomely in college. Our youth must be taught to use their senses, to reason simply and correctly, and from exact knowledge thus brought to them, to attain sincerity in thought, good taste in living, and judgment in action.

Champions of the Quest

TO work out a free, socialized life, wherein the individual is not lost in a metaphysical superstate, nor sunk in inaction or selfishness, by inducing a desire for such life, by applying trained intelligence to its achievement—this is the task of American democracy, indeed of world democracy. The center of gravity of the autocratic state is the state itself, and such ideals as self-anointed leaders suggest. The tendency of democracy has been to shift the center of gravity too much to self and merely per-

sonal welfare. There must be a golden mean somewhere and we must find it.

The social democrat of Germany is seeking it now in his splendid national devotion, the mystic, inarticulate Russian peasant, the Frenchman, with his clear brain, the Englishman, wrapped in his great tradition. In our undreamed vigor, we, too, are champions of the great quest. Here continental democracy was born, here it has grown great. Let us prepare for our responsibilities in the world life not alone by preparing commonsense establishments of force on land and sea and in the air until such time as human reason shall deem them not needed, but by the great preparedness of self-analysis, self-discipline and self-restraint. Let us hold the faith that all this can be done, and yet retain, in the family freedom, that shining jewel of individual liberty which has glowed in our life since the beginning.

Fitness to Rule

THERE stands upon the steps of the sub-treasury building in Wall Street the bronze figure of an old Virginia country gentleman who happened also to be the richest man of his age. There he stands, looking out with fearless, honest eyes upon a sea of hurrying, gain-getting men. I consider that statue the most remarkable allegory and object lesson ever set up in exactly the right place in human history.

George Washington embodies that form of public spirit, that balance of character, that union of force and justice that redefines democracy. Out of his life seems to issue the great creed which is the core of democratic society and around which this finer organization for which all good men strive, shall one day be solidly built. Power, he seems to say, rests on fitness to rule. Fitness to rule rests on trained minds and spirits. You can trust men if you will train them. The object of power is the public good. The ultimate judgment of trained men in the mass is a fairly good judgment.

Let us build a civilization in which these principles prevail and where men may climb. Let us deny his chance to no man who wears the form Christ wore. This is the essential democratic philosophy which has fascinated every generous thinking man since freedom became the heritage of man, and which I believe shall one day possess the earth.

I close with the words of a great business man who at this moment happens to rule the British Empire as its prime minister, Mr. Stanley Baldwin:

"Democratic government calls for harder work, for higher education, for farther vision than any form of government known in this world. It has not lasted long yet in the West, and it is only by those like ourselves and our American brethren who believe in making it a success that we can hope to see it permanent and yielding those fruits which it ought to yield. The mere assertion of people's rights has never yet provided that people with bread. The performance of their duties, and that alone, can lead to the successful issue of these experiments in government which we have carried further than any other people in the world. Democracy can rise to great heights, it can also sink to great depths. It is for us so to conduct ourselves and so educate our people that we may achieve the heights and avoid the depths."

Federal Reserve Changes

THE Federal Reserve Board announces that in the week ending Sept. 28 no bank was admitted to membership, while two withdrawals were permitted; the Citizens Bank, Gillette, Ark., and the Joliet State Bank, Joliet, Mont., retiring from the system voluntarily.

The Guardian Trust Company of New Jersey, Newark, N. J., consolidated with the Broad and Market National Bank and Trust Company, Newark, under the title of New Jersey National Bank and Trust Company of Newark. The Fidelity Bank and Trust Company, Memphis, Tenn., was absorbed by a non-member, the Manhattan Bank and Trust Company, of the same city.

Permission to exercise trust powers was granted to the First National Bank, Medford, Mass.; the Manasquan National Bank, Manasquan, N. J., and the Citizens National Bank, Alexandria, Va.

General Sessions

(*Continued from page 275*)

tween banks and the public which they serve.

"We recognize and commend the service that you, as a President of this Association, have performed, in performing your duties and discharging your responsibility during the year which has just been brought to a close. You have directed the affairs of the Association with foresight, with wisdom, with fairness, with honor, and with dignity. In all the years that we have known you we have recognized the fact that Thomas R. Preston, the man, is greater than Thomas R. Preston, the business executive, the holder of official position. Greater than Thomas R. Preston, the president of the Hamilton National Bank, greater than Thomas R. Preston, the President of the American Bankers Association, is Thomas R. Preston, the citizen, the husband, the father, the friend, who possesses in such large measure those qualities of personality and character which have endeared you to our hearts and to the hearts of all of those with whom you have come in contact.

"As a former President of this Association, one who has known you intimately during the years that we have both been actively engaged in work of this character, it is now my privilege and pleasure to present to you a token of esteem from the membership of the American Bankers Association. We ask that you accept it for yourself and for Mrs. Preston, who has played such a prominent part in your life and who has contributed so much to your success. We also ask that you accept the same symbol of appreciation of the membership and from the membership of this Association for what you have done for us personally, and for what you have done for the great banking profession which you have so nobly served and so fittingly represented.

One-Hundred Fold

"WE also ask that you accept the same symbol of the love and affection which we have for both you and Mrs. Preston.

"It was my pleasure as an officer of this organization to be intimately associated with the retiring President, the man who stands here by my side at my request and at your request. It was also my pleasure to have him by my side when I served as the President of the organization, and not only in repeating the words which he so generously used in introducing the new President and the new Vice-Presidents, I can say for myself and for those other officers of the organization that Thomas R. Preston was always by our side in the moment of need and in the time of adversity during the years which I served actively as one of your officers.

"Mr. Preston, this tea set serves today, and I hope it will during the years that are to be, to remind you of these happy days and of the personal associations which are dear to us and which we feel are equally dear to you. It also serves at this moment to express the sentiment of all the members of this Association, a sentiment which has been so aptly praised by others, but which is emphasized one-hundred fold by those who are here this morning and those who are associated with you in this work. 'Well done, thou good and faithful servant.'

"Mr. Preston, representing the membership of this Association, I express to you the wish of every member present, and not present, that in the years that are to come your life will be filled with pleasure and happiness, and that it will continue to be an inspiration to all of those whose privilege it is to know you."

W. D. Longyear, vice-president Security Trust & Savings Bank, Los Angeles, was reelected Treasurer of the Association.

Bank Women Meet

SIMULTANEOUSLY with the American Bankers Association Convention the Association of Bank Women held its sixth annual convention at Philadelphia. Women bank executives from all parts of the country were in attendance.

Problems concerning the administration of women's departments were discussed. Among the speakers were Miss Margaret J. Bacon, Director of Thrift and Income Management of the Monroe County Savings Bank of Rochester, N. Y., who delivered an address on "Economy's Handmaiden"; Miss Louisa K. Ward, assistant trust officer, Manufacturers National Bank of Troy, Troy, N. Y., presented a paper on "Overcoming a Woman's Prejudice Against a Corporate Fiduciary," and Miss Agnes Olson, assistant cashier of the Noel State Bank of Chicago, discussed the practical points to be considered in extending credit.

An International Society of Bankers Is Needed

(*Continued from page* 278)

spirit than ever before; both are recognizing that their interests are inseparable, what benefits one will benefit the other. In times past certain political leaders tried to create the impression that business was a thing separate and apart from the interest and welfare of the masses. Those leaders then instilled into the minds of the public hopes and aspirations which could never be realized and only ended in bitter disappointment. The public can and does own most of the big institutions of this country. The greatest friends of labor would have few opportunities in this country except for that, and the greater the supply of capital, the greater the opportunity for labor.

After Fifty Years

ON behalf of the Association, I want to extend our thanks to the bankers of Philadelphia for their kindness. They seem to have left nothing undone for the comfort of the delegates and the success of this Convention. It has been over fifty years since this Association met in Philadelphia. There are none present now who were here then, and there are few living who were members at that time.

Clustered about this great city are memories of our early financial struggles. The first savings bank ever organized in this country was organized here; the first bank to receive a charter when our national banking system was adopted in Philadelphia; here the First United States Bank was formed, and here the Second United States Bank was organized, and here it had its tragic end; here the Revolution was financed. From all these early and sometimes unhappy experiences we have progressed, until now we have the Federal Reserve System, conceded by all to be the best banking system in the world. It is about as nearly complete as a financial system could be, and no major financial legislation now seems necessary.

But in a larger way there clusters about Philadelphia, grown to be one of the great cities of the world, the memories of the struggles and triumphs out of which this Republic was born, for it was here the colonies received the final message of the King, and it was here they gave their final answer—the Declaration of Independence. The years of struggles and sacrifices, and finally a recognition of our independence, and at last our Constitution. Thus was created here the greatest nation upon earth—the United States of America. From that day until this, our achievement as a nation has been as romantic as any story of fiction ever written. Unemotional, indeed, is he whose patriotism would not be stirred by a review of the achievements of this country since 1776.

But in this changing world is there not a tendency for us as a people to move away from the fundamental principles of government, under which every man has a chance, under which we have achieved so much, grown so great, and as a nation been so happy?

At the time our Constitution was adopted it was conceded by friend and foe to be the greatest charter ever conceived for a people. One of England's greatest men said at the time it would be the admiration of future years and the pattern for future constitutions. Since it was written there have been more than 400 constitutions written in the world, and almost without exception every one has been patterned, in part at least, after ours, yet some of our people have been so restless, so impatient and so dissatisfied that during the past thirty-seven years there have been 1314 attempts to amend it. For the one hundred years ending with 1904 it has been amended but four times. It was amended four times in the following twenty years, and in a recent Congress there were pending more than one hundred resolutions proposing amendments.

There is now floating around over this country what is known as the Child Labor Amendment, the practical effect of which, if adopted, would be to keep a boy from work until he is eighteen years old. Herbert Hoover and Alfred E. Smith were not only self-supporting, but were contributing to the support of their families before they were fifteen. The tendency of these amendments, as well as the multiplicity of laws are not only for the purpose of regulating business, but they propose to go into the most intimate relations of the home. The greatest institution in our nation is not the school, is not the church, but it is the American home. The home is the thing which really makes this country great. It may not be generally known, but there is a bureau in Washington that has for its purpose the supervision of the rearing of children by the government. If that law is ever really enforced it will not be long until the mothers of this country will nurse their offspring under the supervision of a government inspector.

History Warns

IN the past thirty years there has been a marked tendency to set up in Washington a never-ending string of bureaus and commissions, some of them taking away from the people the control of their local affairs, many of them duplicating work, and without any direct responsibility to either Congress or the people, and when a bureau has been created it is practically impossible to abolish it.

Because of the complexity of the age in which we live, changes, of course, are necessary, but have we not already gone entirely too far, and have we not already lodged too much power in Washington? All history warns against the concentration of too much power in any government. The concentration of

power has been the one instrument above all others by which free governments have been destroyed.

Probably all of this has no place in a banker's convention, but if there is a class of people in this world which knows the importance of constitutional government and the precious rights and privileges of the individual, it is the bankers of this country. The greatest debt we owe to ourselves and to posterity is to preserve our government in all its simplicity, and accept these new conditions exactly as the framers of our Constitution intended they should be accepted. No other group of men ever understood government better than they, and no other group of men ever knew the dangers of centralized power in government as they knew it. Paternalism was shunned by them, and it should be shunned by us. They prized freedom above all other privileges, yet no other people ever were so disciplined in self-denial and self-control.

If we move along fundamental lines, preserving at all times the rights of the people and the rights of property, with business always unfettered, and leaving as much as possible to the initiative of the individual, this nation will continue to grow and prosper, and remain as it is now—civilization's greatest asset.

As we grow in wealth, in power and in influence, may we also grow in gratitude, in humility, and in the breadth of human understanding.

Philadelphia's Charm

EACH city, like each family, has its special characteristics and its special charms. About Philadelphia — strong financially, strong industrially, alert, progressive and teeming with life—there still lingers something of the Colonial-day charm that every American loves, and he is indeed a stolid American who does not get a thrill when for the first time he visits the city's patriotic shrines.

During the Fifty-fourth Annual Convention of the American Bankers Association the places of patriotic interest were magnets of attraction notwithstanding all the other attractions of business and pleasure that the convention and its hosts offered.

Philadelphia hospitality, famed since pre-Revolutionary days, was evident on all sides. A constant round of entertainment was provided for the delegates and guests of the Convention and blue-badged visitors were welcomed in the city, where towering modern office buildings and banks stand out amidst a background of the quaint edifices of another age, and in the tree-arched streets of the residential sections of Philadelphia.

A constant stream of buses took the delegates to Valley Forge, to the new Art Museum, the Navy Yard and to points of historic interest with which Philadelphia and its environs abounds. Country clubs in and around the city were thrown open to the bankers, and on Friday the golf tournament was held.

Formal entertainments started Sunday evening with a reception and musicale at the Bellevue-Stratford Hotel, Convention headquarters. On Monday afternoon the ladies attending the Convention were entertained with a Fashion Show and in the evening delegates attended theaters as the guests of Philadelphia.

On Tuesday evening the All Star Convention Show was staged at the Arena with prominent theatrical celebrities and boxing bouts. Wednesday evening was occupied by the meeting of the Trust Division of the American Bankers Association, but on Thursday evening there was a concert by the Philadelphia Orchestra, followed by the Convention Ball at the Bellevue-Stratford.

To the delegates and guests of the Convention there were presented souvenirs of the meeting in the form of a bronze replica of the Liberty Bell and an interesting volume describing Philadelphia's historic scenes.

Arrangements for the Convention were complete and splendidly planned. The Academy of Music, where the general sessions were held, is but a short block from the Bellevue-Stratford, where headquarters were established, with the result that Convention gatherings were centralized. Headquarter offices buzzed with activity, presenting a scene similar to a busy day in a bank and members of the Philadelphia committees were in constant attendance at the Bellevue-Stratford and other hotels ever ready to minister to the comfort and entertainment of the delegates.

Working under the executive committee, of which Joseph Wayne, Jr., president of the Philadelphia National Bank, was chairman and Harry J. Haas, vice-president of the First National Bank of Philadelphia, was vice-president, more than a score of committees, comprising several hundred Philadelphia bankers, contributed their services to the great success of the Convention.

Condition of Business

(Continued from page 358)

and $15,000,000 each for Alabama Power Co. and Georgia Power Co.

On page 358 is a detailed list of all underwritings of $5,000,000 or over during the month.

The Outlook for Money

SHIPMENT of gold to this country from Great Britain has precipitated a discussion of the possibility of the American money market being affected by an inward gold movement. Authorities seem to agree that there is little likelihood of sufficient gold coming into the country to make itself a factor in the trend of money conditions.

While the higher rates obtaining in the United States are conceded to offer an attraction for gold, it is pointed out that few European countries, with newly stabilized currencies can afford to export any appreciable quantities of the metal. They are expected to rely upon their dollar balances in this country instead of gold shipments to protect their exchanges.

"There has as yet been," says the Guaranty Trust Company of New York, "little evidence of any real shortage of funds for commercial purposes. To be sure, the higher level of rates must be regarded as an indication of less plentiful supplies of loanable funds than were available a few months ago; and, from the point of view of general business, the very fact that higher returns must now be paid for the use of borrowed money is a factor of no little importance. Nevertheless, funds for legitimate uses are still forthcoming in sufficient amounts at the terms quoted.

"Whether the increasing demands of the autumn and winter will continue to be met as successfully remains to be seen. Although the use of bank credit for speculative purposes has never resulted in a lasting scarcity of commercial funds, such a situation may exist for a short time. So far, however, it certainly cannot be said that a period of severe shortage is in prospect.

"An interesting development of the month was the shipment of about $2,500,000 in bullion to New York by the Bank of England, the first gold to be received here from London in more than a year. In view of the wide disparity that has existed between interest rates in New York and some of the leading financial centers of Europe since the tightening of money in the United States, the shipment was not unexpected, and it is believed that larger transactions of the same kind may follow in the near future. Since financial authorities both here and abroad are desirous of facilitating the redistribution of America's large gold stock, any return flow of the metal into this country will no doubt be held down to the lowest possible figures. The importation of gold into the United States at present is, in fact, merely an illustration of the difficult situation that

has faced the Federal Reserve banks in their efforts to promote world-wide financial recovery and at the same time to prevent inflation at home. Their open-market policy, by increasing the money tension in this country, has in some degree retarded the process of repatriating the world's gold supply.

"The same conditions are reflected in the report on the gold movement in August, which shows the first net importation of the metal into the United States in exactly a year. The total was very small, amounting to less than a million dollars; but it contrasts sharply with the net export figures for the preceding five months, every one of which was above $60,000,000."

Considering England as the only probable source of gold imports the Chase National Bank of New York sums up the effect of gold imports upon the American money market in this fashion:

"The import of $25,000,000 in gold to the United States from England at the present time would have very slight effect upon the American money market. If used in building up bank reserves, it would add a trifle over 1 per cent to the reserve balances of the member banks with the Federal Reserve banks, which stood on Sept. 12, at $2,349,000,000. In practice, it would probably add nothing to these reserves, since the member banks were in debt to the Federal Reserve banks on that same date to the extent of $1,069,000,000, and the banks which received the gold would, in all probability, use it in reducing their rediscounts at the Federal Reserve banks.

"Twenty-five million dollars in gold, even if added to the reserves, would meet but a trifling part of the normal autumn drain upon bank reserves. For one thing, the autumn normally requires an increase in hand-to-hand currency in circulation of around $250,000,000—this being the difference between the average circulation in the month of July and the average monthly circulation for December, while the difference between the low point of July and the high point of December at Christmas is decidedly greater. Twenty-five million dollars of gold imports would thus meet less than 10 per cent of our seasonal currency expansion.

"The idea that we could expand credit $250,000,000 or more on the basis of a $25,000,000 gold import today is quite fantastic. Multiple expansion takes place only when reserves are excessive, not when reserves are deficient."

A Business Forecast

With the momentum now established, the continuation of good business during the balance of the year is practically assured, according to the October review of the National City Bank of New York.

"In view, however, of the exceptional activity of business during the summer," the statement continues, "it would probably be too much to expect the fall expansion to be as large as usual and the chances are that we are at, or near, the peak of activity for the year."

Clearinghouse

(Continued from page 289)

Spokane, Washington, and C. G. Mitchell, Denver, Colorado, appointed by President Wolfe, brought in a report which commended and endorsed especially important activities of the Clearinghouse Section, including:

"Conducting a systematic, vigorous campaign for the extension of clearinghouse associations in all cities and towns, and especially emphasizing the importance of installation of county and regional clearinghouse associations, thus permitting country banks to avail themselves of the benefits and safeguards of clearinghouse association facilities.

"Disseminating the results of a comparative study of articles of association and rules and regulations governing clearinghouse associations, made by the officers of the Clearinghouse Section. These standard clearinghouse regulations and practices will be found invaluable to all associations.

"The preparation and distribution of a pamphlet on analysis of checking account costs, which presents a simple and inexpensive plan covering cost accounting, especially meeting the needs of small banks, enabling them to determine accurately banking costs.

Standard Size Checks

"THE preparation and publication of a pamphlet outlining clearly step by step a complete educational program of sample ads, specimen letters, and so forth, for the use of banks in educating bank depositors as to the justness and fairness of service charges.

"The continuing campaign which has been carried on so successfully for the universal adoption of standard size checks and uniform face arrangement of essential data, which has already resulted in an immense saving of time and expense.

"The educational campaign which the Clearinghouse Section has consistently and successfully carried on for the installation of credit bureaus and mutual clearinghouse examination systems in cities, counties and regional districts composed of groups of counties.

Payroll Problems

"THE preparation in cooperation with state and national bank supervisors of a standard form of report for the use of country bank officers in reporting bank conditions to directors, a report form that is at once concise and comprehensive.

"The active cooperation of the Section with the United States Department of Commerce and the American Warehousemen's Association in developing and adopting uniform negotiable warehouse contracts and receipts.

"The study and preparation of uniform financial statement forms for corporations, firms, individuals and farmers, simplifying and standardizing them without omitting any salient features of those now in use.

INDEX TO ADVERTISERS

"The development and adoption in cooperation with the Associated General Contractors of America of a standard form of contractor's financial statement, which is simple and comprehensive.

"The survey and continuing study made of payroll problems which has been helpful in protecting payrolls, preventing hold-ups, and insuring the speedy arrest and commitment of guilty parties.

"The valuable referendum study which the officers of the Clearinghouse Section have been conducting the past year with reference to bank budgets, which will supply banks with an invaluable yardstick for comparative measurement of the chief elements of banking income and expenses of similar size banks."

L. A. Andrew, State Superintendent of Banking of Iowa, presented the recommended form for a standard report from bank presidents to their directors. This was probably the first model form for a report of that character ever to be prepared.

The suggested form is the result of the work of committees of the Clearinghouse Section, the State Bank Division and the National Association of Supervisors of State Banks. It is designed especially to cover the requirements of country banks, offering to the directors the most complete knowledge of the bank's transactions, the value of its note cases and other investments. Through the use of such reports, and with regular meetings, it is felt that bank directors will be kept in close touch with the important transactions of their institutions.

"Good banking," Mr. Andrew said, "requires the close cooperation of the directors of a bank with the active officers. Supervising authorities without exception have insisted upon closer supervision by directors. We are quite sure this form suggested will be of a distinct help in bringing to the directors of a bank a view of the bank's condition, with a comparison of that condition as it was a month before and a year before. We are also sure that the banks that adopt this form will be better banks, more profitable banks, and safer banks."

Discussing "Interest Rates on Deposits," A. J. Veigel, Minnesota State Commissioner of Banks, took the position that about the only place left to enable many banks to make the necessary profits is to reduce interest rates on time deposits.

"Keeping in mind," he said, "the undisputed fact that the public is primarily interested in safe banks and everything else is secondary, also the fact that banks must in the long run make money in order to be safe, it is then squarely up to the banks to do whatever is necessary to show a profit."

Helping the Staff

The purpose of the AMERICAN BANKERS ASSOCIATION JOURNAL is to furnish information useful to all those engaged in banking. Make the contents of the JOURNAL available to everyone in the bank. The Group Subscription plan provides an easy way to give a personal copy to ambitious members of the staff.

WHAT DO YOU THINK?

Being a more or less personal talk between the EDITOR *and the* READER

Will Prosperity Continue?

WE are reminded by the *Magazine of Business* that America's most paraded bogyman along the highway of prosperity has been the alleged excess of productive capacity, which bogyman the editor avers has been put to flight by "the coming of high speed obsolescence."

"New work for productive capacity," he continues, "is about all that is needed to make a joke of the overproduction bogeyman. But the effects of this attitude do not stop with a speeding up of obsolescence. It must not be forgotten that this country is by no means a completed job. It is a young country. There is an immense amount of work to be done improving and equipping it. For example: 1. Every wooden house of many types is a replacement probability. 2. Hundreds of improved bridges are to be built. 3. Electricity is called for on tens of thousands of farms. 4. Road building has scarcely begun, and even new roads must be widened in many instances. 5. Railroads have opportunities to install new types of cars, bearings, electric equipment, and safety devices; to lower grade crossings and reduce curvatures. 6. Heating and refrigeration replacements are in prospect for hundreds of thousands of homes. 7. Great public works are ahead—'improvements' on nature—such as the control of the Mississippi and the building of a Gulf-to-Atlantic waterway. 8. New types of furniture will replace the present equipment in many households. 9. The educational plant must be expanded and brought up to date to care for the increased demand for education. That list is by no means complete, yet it is amply long enough to demonstrate the tremendous investment in changes, improvements and replacements which this country will make during the years immediately ahead, an investment so tremendous that it assures. . . ."

A $1,000,000 Goal

THERE are more ways than one to help the farmer. One way which appears to be getting results, is described by F. A. Irish, vice president, the First National Bank of Fargo, Fargo, North Dakota, who writes us as follows:

"We have an organization here in North Dakota, known as the Greater North Dakota Association, of which I am treasurer. The association is attacking the agricultural problem along real, sane and safe lines. Our problem is more balanced farming and less dependence on grains, together with increased efficiency of the farm unit. So the association is directing about 50 per cent of its energies on sales campaigns to help speed up the diversified farming trend. For instance, it is operating sire sales trains which bring a trainload of pure bred sires to a town for farmers of that section to look over and buy from. It has placed close to 2,000 sires and will place another 1,000 during the next six months. It has spread a trench silo campaign over the state, resulting in more than 1,000 silos being constructed. It is carrying on a hog campaign. The association has grown during the past year and it is enlarging this work to permit a better seed grain project which starts November 1. The goal is to bring the state's farm products up to a $1,000,000 total each year instead of $400,000 as at present."

The Reaction of Trade

A RECENT reference in this JOURNAL to the increase in the sale of player pianos because of the popularity of the confection called the Eskimo pie brings inquiry for the full story. We give it in the following quotation from one of the publications of the American Bankers Association's Committee on Public Education:

"How many of you know what connection there is between an Eskimo pie, and the export trade in player pianos? There is a clear and close connection. It is this: Eskimo pie, as you know, is a slab of ice cream covered with chocolate. Chocolate is made from cocoa. Ecuador, in South America, is the chief producer of cocoa in the world. Just before Eskimo pie appeared in the United States, Ecuador was having a great deal of trouble, because the market for cocoa was over-supplied. The price of cocoa was so low that the cocoa-raisers in Ecuador could not get enough money for their product to enable them to buy what they wanted. The Eskimo pie supplied a new use for cocoa, and as it immediately became very popular, millions of Eskimo pies were eaten in this country. As this increased the demand for cocoa, Ecuador was able to increase the sale of her chief product, and to get a better price for it. Consequently, her producers were able to resume buying the things they needed, or wanted, one of which was player pianos. The invention of Eskimo pie in the United States actually improved the export of American-made player pianos to Ecuador. It improved other lines of export trade at the same time."

What Price Farm Relief?

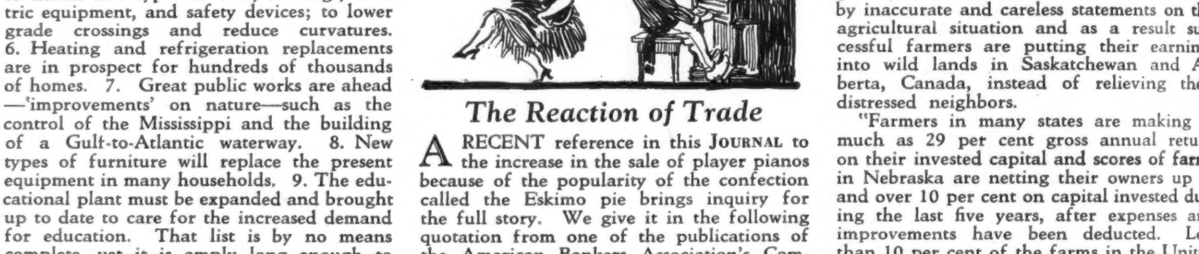
FARMING is far from being a flop, according to C. J. Claassen, vice-president, The Peters Trust Company and the Peters National Bank, Omaha, Neb. Despite the tender solicitude evident in the midst of a Presidential campaign for the woes of agriculture, Mr. Claassen describes the American farmer as prosperous. Speaking before the convention of the Mortgage Bankers Association of America he said:

"Hundreds of thousands of farm homes in this country have been wrecked by economically dishonest and unpatriotic propaganda, farmers themselves have been fooled by inaccurate and careless statements on the agricultural situation and as a result successful farmers are putting their earnings into wild lands in Saskatchewan and Alberta, Canada, instead of relieving their distressed neighbors.

"Farmers in many states are making as much as 29 per cent gross annual return on their invested capital and scores of farms in Nebraska are netting their owners up to and over 10 per cent on capital invested during the last five years, after expenses and improvements have been deducted. Less than 10 per cent of the farms in the United States are unsuccessful and the owners of these 500,000 farms make a noise that entirely drowns out the modest murmurs of satisfaction of 6,000,000 successful farmers; and continued high deposits, mail order purchases, the authorization of million dollar road bond issues and the high gross crop-money returns show the farmers to be generally prosperous."

The Bank's Windows

WHAT to use for a window display is an eternal question in many banks. The engraving below shows how covers of the American Bankers Association Journal were used to make an effective window display in the Guaranty Office of the Security Trust & Savings Bank, Los Angeles. The display was prepared by the local chapter of the A. I. B.



A Window Display of Covers of the American Bankers Association Journal

PROTECTIVE SECTION

AMERICAN BANKERS ASSOCIATION JOURNAL

Detective Agents
The William J. Burns International Detective Agency, Inc.

Modernized Laws to Moderate Crime

By JAMES E. BAUM
Deputy Manager, American Bankers Association

FOR the past five years the Protective Committee of the American Bankers Association has repeatedly advocated the need of (1) modernized criminal laws and (2) greater efficiency, equipment, and man power in the police forces, including state-wide police, as being two outstanding needs in curbing crime.

Although the effect of lawmaking as a deterrent against lawbreaking is limited by the extent of its enforcement, conclusive proof that bank crooks are most active where the penalties and administration of the criminal code are weakest is furnished by the records of the Protective Department. Many familiar faces have been missing from New York's underworld since the passage of sterner laws in that state, and especially since applying the mandatory provisions for dealing with the habitual or incorrigible felon.

In addition to their deterrent value, the effect of these more drastic laws have been to drive criminals, not into idleness, but into other states where easy bail, appeals, continuances, and broader discretionary powers of the Courts promised quicker freedom—even after arrest. Too many incoming photographs of criminals arrested in other states have been identified by the New York police to doubt the wanderlust of these former New York crooks into safer and more fertile fields for their thievery and killing.

Anticipating this flight of criminals from New York, the Protective Committee in 1926 proposed the so-called "Baumes Laws" as models for other states. California has since made sweeping changes in its penal and procedural laws, and life imprisonment of the habitual offender is now law in that state, Indiana, Kansas, and Michigan. Much has been written about the sovereignty to which each state is entitled, but the professional criminal recognizes state boundaries chiefly by the severity and celerity of punishment he may expect on either side of the border and as exits for escape. Nevertheless, these same boundary lines usually distinguish between good, bad and indifferent enforcement of law or the rights of people to the preservation of their lives and property.

Within the next few months the legislative bodies of forty-three states will open their regular sessions. Every thinking banker need only consider the loss of life and property from which banking alone has suffered to realize on this opportunity for the enactment and enforcement of laws that will be suitable to deal · the criminal of today. Your customers need action to that end and your police deserve it.

Contents Noted by

President ________
Vice-President ________
Cashier ________
Assistant Cashier ________
Paying Teller ________
Receiving Teller ________
Guard ________

October, 1928 Vol. XXI No. 4

Published in Two Sections — Section Two

Convicted Bandit Wanted

ON July 7, 1927, a few days after the Commercial Savings Bank of Galion, Ohio, had been held up in broad daylight and $75,000 in currency and negotiable securities stolen, WILBUR WILLIAM HAND (3378), alias "Pretty" Wilbur, appeared at the bank with an attorney and said that he had been advised the police were looking for him in connection with the holdup, and he wished to clear himself. However, the cashier of the bank recognized him as being one of the bandits and had the courage to say so and stick to his identification.

Subsequently, HARRY ZILLECK (3379) and ARTHUR HAND (3380), the brother of Wilbur, were arrested, and Wilbur and Harry Zilleck were later sentenced to terms of 12 to 25 years

Wilbur W. Hand

in the Ohio State Penitentiary. They had plenty of money at their command and used every legal means to obtain a reversal of the conviction, but the Court of Appeals finally confirmed the judgment of the Trial Court. Wilbur immediately disappeared after this decision was handed down, and his bail of $25,000 has been declared forfeited. It is believed Zilleck intended to forfeit his bail also, but he was unsuccessful, and has now been lodged in the Ohio State Penitentiary to serve his sentence. Arthur Hand has not as yet been brought to trial for the crime.

Wilbur Hand is 30 years of age, 5 feet 8 inches tall, weighing 168 pounds; has blue eyes, dark chestnut hair and light complexion. His picture is published with this article, and should he be recognized by any person to whose attention this warning is called, it is requested they transmit the above information to their local police, who should at once get in touch with the authorities at Galion, Ohio.

Double Withdrawals Again

ONE of the methods of defrauding banks used only by the elite of the check passing fraternity has again been called to our attention in a report from St. Louis, Mo. A person using the name J. MARCO (3381) opened an account in a St. Louis bank, and after keeping it active for a few weeks, he presented his check for $500, which was the balance on hand, to one of the tellers. This teller checked up the ledger, found that the amount was on hand, and paid the check. Marco at once went to another teller and presented another check for $500 and was successful in having the second check honored.

The activities of this fellow and others using similar methods have been featured in warning articles as far back as October, 1921, page 26; August, 1923, page 3, and February, 1928, page 8, issues of the Protective Section. It is an ancient form of swindle which should be defeated by the exercise of due care. Another variation of this scheme has been to open an account in the main office of a bank and present a check for the balance on hand at one of the branch offices, then proceed at once to the main office, where the account was carried, and duplicate the withdrawal.

Two men working together have also been successful in working this swindle, the depositor introducing his accomplice to a teller, indorsing the check, and while the accomplice was getting payment from one teller, he approached another window and presented a similar check, thus getting his balance twice. Still another method which has been called to our attention has been for the operator to have the teller cash a check representing his entire balance and then going to a nearby 'phone booth, notify the teller that some relative of his was seriously injured and in the hospital. The teller, of course, is at once allowed to leave the bank, and his transaction with the operator is entirely forgotten. The operator then enters the bank and has the relief teller cash another check for the same amount as the first one presented.

Stolen Stock Certificates

ON Sept. 10, 1928, one stock brokerage firm in New York City delivered to another broker certificates of stock which will be described below. Pursuant to the rules of the New York Stock Exchange, as the signature of the registered owner of one of the certificates had not been guaranteed, an employee of the firm receiving the stock notified the senders, and it was understood by him that a messenger would be sent to take back the certificates.

About twenty minutes after the notification a messenger, whose identity is unknown, appeared, stating he was from the firm which had delivered the certificates, and was successful in securing possession of them. It later developed that no messenger had been sent, and it seems quite clear that this theft was committed by a band of thieves who have operated in the manner described over a number of years. It is usual for this gang to refrain from selling such securities, as they apparently consider there is less risk in offering them as collateral for a loan which they may attempt to obtain from a bank. Members should be on the alert against accepting any of the following certificates, either as collateral or otherwise:

No. 74413 representing 100 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of Horace T. Fishburn.

No. 74231 representing 100 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of Logan & Bryan.

No. 70399 representing 20 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of Logan & Bryan.

No. 70246 representing 80 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of Logan & Bryan.

No. 63199 representing 100 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of E. F. Hutton & Company.

No. 73653 representing 100 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of Tucker Anthony Co.

No. C-22684 representing 100 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of Niblack Thorne.

No. C-22803 representing 100 shares of the common stock of Montgomery Ward & Company, Inc., registered in the name of James H. Oliphant & Company.

Pawnbroking Business

A WOMAN was recently arrested by the sheriff of Aberdeen, S. D., after she had attempted to secure a loan on a diamond ring from a local bank. When she was arrested about 25 diamonds were found on her person, and while she subsequently proved that she had purchased them from a Chicago jeweler, and the police were forced to release her, she admitted that her intention was to secure a loan in excess of the value of the stones, and that she never intended to redeem them. She is 45 years of age, about 5 feet 6 inches tall; has round features and black hair.

Four Fake Property Buyers

BY use of a method which apparently is growing in popularity with bogus check operators, a person calling himself L. D. BUTTERFIELD (3382) approached a business man at Salt Lake City, and after conducting preliminary negotiations succeeded in being introduced at a local bank, where he opened an account with a check drawn on a San Diego, Cal., bank, purporting to have been issued by a legitimate real estate concern of the latter city. Due to his introduction at the Salt Lake City bank, the operator was enabled to draw against his deposit, which was later returned, "Payment Stopped." Investigation developed that the check had really been issued by the person signing same during August, 1927, and had either been lost or stolen in the mail. Before depositing it the operator had changed the date to August, 1928.

Butterfield is said to be 45 to 50 years of age, 5 feet 8 or 9 inches tall, weighing 160 to 165 pounds; has dark complexion, dark hair turning gray, and prominent upper teeth; wears horn-rimmed glasses and talks with the accent of a New Englander. We are reproducing a specimen of his handwriting.

L D Butterfield

A scheme similar to Butterfield's was successfully employed by an operator calling himself FRANK L. CLARKE (3383). Clarke approached a Seattle, Wash., real estate dealer and, after arranging for the purchase of some property, had the real estate man introduce him at his bank. He gave a check for a thousand dollars as an option on his purchase, and deposited a draft for about $3,000 to a personal account which he opened, both these instruments being drawn on the Deseret National Bank, Salt Lake City, Utah. He also deposited a $4,000 draft drawn on the Utah State Bank of Salt Lake City, Utah, signed by himself and Berta Flagg. He succeeded in inducing the bank official to O. K. his check for $250, and subsequently the other three checks mentioned were returned marked "No Account." Clarke is about 45 years of age, 5 feet 9 or 10 inches tall, weighing 155 pounds; medium build; smooth shaven; has dark complexion, heavy bushy eyebrows and dark hair streaked with gray. His hands were very hairy on top and he had long slender fingers.

JOSEPH A. LARKIN (3384), alias H. E. Erickson, alias H. L. Anderson, alias Fred Lough, alias B. J. Boyle, alias Fred Mason, alias H. Haydendahl, alias William J. Alley, alias J. O. Hartley, is traveling about the country using banks in his fraudulent schemes. One of his methods is to open a savings account with a draft on some distant city for a large amount. He then uses the passbook issued by the bank as a credit reference, and visits a local real estate dealer, arranging to buy a home. He gives a bogus check in part payment, and is generally successful in getting the dealer to cash his personal check. We are reproducing a specimen of this operator's handwriting, and his description follows: About 40 years of age, 5 feet 8 inches tall, weighing 175 pounds; hair turning gray, gray eyes; sandy complexion; one or two front teeth missing.

Six Thousand Five Hundred
6500 00/100

R. L. STOCK (3385), under pretense of being a prospective purchaser of property, induced a Houston, Texas, real estate dealer to introduce him at a local bank where he deposited a check drawn on the Commercial State Bank of Nacogdoches, Texas. He then requested the Houston bank to honor his check for about $300, and believing he was well-known to their customers, they accommodated him. Check was returned marked "insufficient funds." Investigation disclosed that the operator carried an average balance of about $100 at the Commercial State Bank. Stock is now issuing checks against his account in the Houston bank, the latest of which came through from Kerrville, Texas. He is about 30 years of age, 5 feet 7 inches tall, weighing 135 pounds; medium build; has dark complexion, dark hair and dark eyes.

Investigate New Accounts

NEW YORK CITY banks have been defrauded of approximately $125,000 through the operations of a gang of forgers whose success was largely contributed to by the carelessness of other New York banks in accepting the accounts of the operators who opened them in order to negotiate forged instruments and who gave fictitious names, addresses and references. Prompt action on the part of our agents in giving warning to other local banks prevented additional losses. It was found that the depositor in each of the defrauded banks whose name was forged had issued checks in payment of gambling debts to a well known New York gambler and betting commissioner, and these checks were used as models for the forgeries. The name used by one of the operators is HARRY GORDON (3386), and he is described as about 35 to 40 years of age, 5 feet 6 inches tall, weighing 140 pounds; medium build, dark hair, bald on top, dark complexion.

Warnings Ignored = Loss

ON page 2 of the August, 1928, issue of this Section, we published the last of several warnings reporting the operations of the Aaron Schwartz Gang, and carried a reproduction of one of the checks used. In spite of this, they were successful in defrauding two more Chicago banks of approximately $10,000 by the identical method heretofore used, the only change being that new names were substituted. In our last warning we requested member banks, particularly in Chicago and New York, to call the attention of the officers and tellers who open new accounts to this particular gang, but apparently the two defrauded banks in Chicago did not heed our advice.

Sleight-of-hand Artist

A SHORT change swindler, evidently a foreigner, about 40 years of age, weighing 120 pounds, having dark hair and complexion, made his appearance in Harrisonburg, Va. He visited a local bank, but through the carefulness of a teller, was unsuccessful in defrauding it. He presented $1,400 in large bills to the teller, requesting an exchange for $1,400 in ten's and twenty's. The teller delivered two packages of bills, each containing $500 and counted out $400 from another package. The operator appeared to change his mind, and returned both packages apparently in the same condition as when received, and requested in exchange, $1,000 in fives. Fortunately, the teller counted the packages returned before making the exchange, and found that a total of $500 had been removed. This is an old scheme and will only be successful where the teller is guilty of carelessness.

Old Operator Again Active

R. M. Moore

DURING the period between 1914 and 1922, R. M. MOORE (3387), under this name and many aliases, was very active negotiating bogus certified checks. He has again resumed his activities, and the period of inactivity is due to his having been confined in the Missouri State Penitentiary. In 1922 he operated with checks presumably issued by the Bessemer Gas Engine Company, a legitimate manufacturing concern of Grove City, Pa., with offices throughout the country. These checks bore the bogus certification stamp of Security National

Bank of Tulsa, Okla. The latest operations reported indicate that Moore must have had a supply of these checks on hand and is using the same method again. We are reproducing herewith the latest copy of his photograph which we have in our files. He is now about 70 years of age, and in 1914 was described as 5 feet 6 inches tall, weighing 140 pounds; slender build, sallow complexion, dark eyes, gray hair.

Merciful Bandits

TWO unmasked and gentlemanly bandits held up a bank in Missouri Valley, Iowa, the early part of September, and secured $6,000 in cash from the tellers' cages and from three customers who were in the bank at the time. They refused to touch over $25,000 in bonds and negotiable securities, stating they did not want to be bothered with them. They ordered their victims in the vault, but when it was explained that it would be impossible to get out before they suffocated, they exacted a promise that their victims would remain quiet for five minutes, and departed from the town in a car bearing an Omaha, Neb., license.

Old Offender Jailed

W. E. Norris

W. E. NORRIS (3389), who has used numerous aliases including that of Earl J. Lauber and who has defrauded banks and individuals by means of bogus checks, has again been arrested and is at present in the Maryland State Penitentiary serving a two year sentence. This operator's activities have been reported in the April and December, 1925, Protective Sections, also on page 5 of the May, 1926, issue. He was arrested in April, 1926, in New Bloomfield, Pa., received a suspended sentence and at once resumed his attacks on banks. While his present sentence would seem to promise the banking fraternity immunity from him for the next two years, as often happens, he may be able to secure parole before his full sentence is served. Our agents have been instructed to make every effort to have the persons defrauded by Norris request their local police to file detainer warrants at the Maryland State Penitentiary, and in order to further this procedure, we are reproducing herewith a picture of Norris taken at the time he was received in the penitentiary. He is 29 years of age, 5 feet 3¼ inches tall, weighing 95 pounds, slight build; has sallow complexion, light blue eyes and light chestnut hair.

Check Kiter Apprehended

W. D. J. Bolton

ON page 2, November, 1927, issue of this Section, an article describing the work of W. D. J. BOLTON (3388), was carried. Since that time, Bolton has defrauded numerous banks in the middle west, and on the west coast, but we are now pleased to report his arrest at Des Moines, Iowa, through the good work of the Iowa Bankers Association and local police. Bolton has used numerous aliases and was arrested under the name of A. R. Norsell. His scheme was to visit a city and open accounts in three or four banks with amounts of $200 or $300 in cash and then to keep the accounts active by kiting checks from one bank to another. He would keep this up for two or three weeks, and then deposit bogus checks drawn on out of town banks and attempt to withdraw against them before returns had been received. He aroused the suspicions of one of the Des Moines banks on his last visit, and they communicated with the Iowa Bankers Association, who arranged to have a representative of the Association and two local officers in each of the four banks where he had an account. This plan was successful and resulted in his arrest. He had a new Hudson car with an Oregon license and stated his home was in Portland, Ore., and that his real name was Norsell. In his hotel room the police found a big black grip in which he had a complete check writing outfit. He had many blank forms on banks in cities in the western part of the country, and rubber stamps containing the names of various firms in different cities. He had two books of handwriting indicating that he had made a study of different kinds of writing, also two different checkwriters, and several rubber lettering and numbering sets. Norsell is about 50 years of age, 5 feet 6 inches tall, weighing about 155 pounds; has light complexion; is typically German in appearance and speaks with a slight German accent. We are reproducing his picture in conjunction with this article, and if any member bank can identify it as being of a person who defrauded them, they should notify their local police and request that detainer warrants be filed with Sheriff Park A. Findley, Des Moines, Iowa.

Telegraph Swindles

A DARING attempt to defraud a St. Louis florist was frustrated by accident and caused the arrest of a man using the name of AARON GOLDSMITH (3390). This operator asked to have a check cashed which appeared to have been issued by Max Schling, Inc., a reputable New York florist. The St. Louis florist advised Goldsmith he would send a wire to Max Schling, Inc., and if a favorable reply was received, would accommodate him by cashing the check. The operator agreed to this, and a wire was forwarded. In some manner he managed to type on a sending sheet of the Western Union Telegraph Company a favorable reply, which appeared to come from Max Schling, Inc. He stopped a Western Union messenger on the street, and bribed him to deliver the forged message, and shortly afterwards followed the boy into the shop. His intended victim did not have enough cash to meet the check, and put on his hat and coat to go to a nearby bank. On the way out of the store met another messenger boy with the real reply from New York which stated that the check was a forgery, and Aaron Goldsmith unknown. Instead of visiting the bank, a policeman was called and Goldsmith was arrested.

Several reports have been received during the past month which indicate that telegraph companies were used in attempts to defraud both by the sending of straight messages and messages in A.B.A. code. Member banks receiving telegrams either in code or straight message requesting them to wire funds to a customer who is supposed to be out of town, should exercise every possible precaution before complying with the request.

Oil Companies' Checks Stolen

THE Sinclair Oil and Gas Company of Seminole, Okla., reports the theft of checks numbered 6412 to 6501 inclusive. The name of B. N. Engle, field superintendent, is printed above the signature line with the word "by" beneath. The Sinclair Oil and Gas Company and Mr. Engle's name are also printed on the ends of the checks. Checks of the Independent Oil and Gas Company and Skelley Oil Company were also stolen from their offices at Earlsboro, and several of these have come through made out on a typewriter, signed by fictitious names. The Barnstoll Refining Company checks Nos. 22861 to 22900 are also reported stolen, two already having come through from Tulsa, Okla. The above checks are all drawn on the Exchange National Bank, Tulsa, Okla., and it is reported that several banks in the oil fields have sustained losses by cashing some of them.

Do You Know Him?

George A. Horth

GEORGE A. HORTH (3391), alias R. M. Davis, alias Robert M. Davis, who has a long record as a worthless check operator and forger, was arrested by New York City detectives after an unsuccessful attempt to negotiate a forged instrument at a New York bank. This operator fits the general description furnished in several reports covering unsolved crimes against banks, but at this time we have no handwriting on file to make comparisons with. Horth is about 37 years of age, 5 feet 10 inches tall, weighing 180 pounds; medium stout; has ruddy complexion, blue eyes and light brown hair turning gray; has a noticeable scar on lower right lip about one-half inch long. As our file indicates that he has operated against banks throughout the country, we are publishing his picture, and any persons recognizing it as that of an operator who has defrauded them, should communicate with their local police and have detainer warrants filed with the New York police.

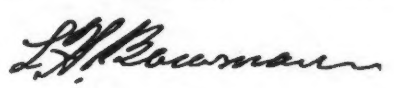
Persistent Bandit Arrested

THE arrest of LORAN E. NORRIS (3392) at Enid, Okla., has put a temporary stop to what appeared to be a promising career in banditry. Had Norris shown the same amount of perseverance and spirit of progressiveness in any legitimate business, it would be commendable. On June 6, single handed, he held up a bank in Breckenridge, Okla., and between that date and August 8, he again visited and robbed the same bank. On August 8, he made a third visit to the bank, but on this occasion was accompanied by W. W. OAKS (3393), who has been arrested with him. It develops that both these young men entered as student aviators at Kelly Field, Texas, and it was their intention to use the knowledge gained at the school along with the aeroplane which would either be placed at their disposal or "borrowed" for the occasion, to visit the scene of their crimes and make a quick getaway. Norris is 24 years of age, 5 feet 8 inches tall, weighing 145 pounds; has sallow complexion, dark hair and dark gray eyes.

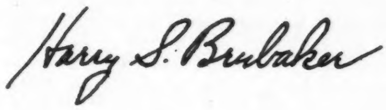
Warnings

GEORGE B. APPLEGATE (3394), alias Thomas H. Redding, is reported from the vicinity of Tucson, Ariz., where he succeeded in negotiating a bogus check which appeared to have been issued by the Lewellyn Corporation whose address is given as 26 Broadway, New York City, and Whittier, Cal. The check is drawn on the Chase National Bank of New York, which does not have such an account, nor does it appear that any corporation of the above name is in existence in New York. The bogus checks are described as follows: In the upper left hand corner appears the printed name of Lewellyn Corporation, 26 Broadway, New York, N. Y., California office, Whittier, Cal., account No. 840-69. In the center appears the number of the check and at the upper right hand corner the name of the bank. The date line is in the usual place, but the payee's name is inserted in the lower left hand corner where two lines appear under the caption "To The Order of." In the lower right hand corner the Corporation name again appears and underneath are two lines for signatures, the word "Attorney" being printed under each line.

Checks which appear to have been issued by Somers Fitler Todd Company, manufacturers of machinery, Pittsburgh, Pa., drawn on the Union National Bank of Pittsburgh and signed Martin A. Quigley as Cashier have come through from various points in Canada and Vermont. The last to come to our attention was negotiated through a hotel at Montpelier, Vt., the name of the payee appearing as L. H. BOWMAN (3395). The company whose name appears on the check is a legitimate concern, doing business throughout the country, but they do not have an account at the Union National Bank nor is there a Martin A. Quigley connected with the company. We are reproducing the handwriting which appears on the check.



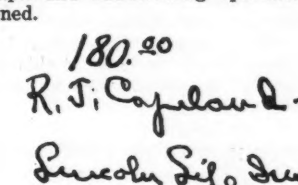
HARRY S. BRUBAKER (3396), who is about 40 years of age, 6 feet tall, weighing 200 pounds; with black hair, brown eyes and a ruddy complexion, succeeded in defrauding a Harrisburg, Pa., bank of nearly $3,000 by means of a worthless check drawn on the First National Bank and Trust Company of Harrisburg, Pa. Possessing a good appearance which is the stock in trade of persons of his ilk, he succeeded in totally disarming the bank official with whom he did business by purchasing $2,000 worth of travelers cheques and a steamship ticket for a European port. Of course no attempt was made to use the steamship ticket, and the travelers cheques were quickly disposed of. We are reproducing specimen of this operator's signature and should he come to the attention of any person reading this warning it is requested that the police of Harrisburg, Pa., as well as nearest office of our agents be notified.



C. A. COMPTON (3397), alias C. N. Coffield, is negotiating checks ostensibly issued by the National Sanitary Rag Company, San Francisco, Cal., and drawn on the Anglo, London and Paris National Bank, San Francisco. The National Sanitary Rag Company is a reputable concern, but do not have an account in the bank on which the bogus checks are drawn. The checks bear the signature of E. S. Allison or W. A. Allison, neither of these parties being connected with the company. No description or handwriting is available at this time.

L. D. Gregory

Since writing a warning article on L. D. GREGORY (3361), which appeared on page 4 of the September Protective Section, we have come into possession of a picture and handwriting specimen of this bogus check operator. The picture has been positively identified as the person who defrauded the Michigan bank. He apparently is a clever operator, and will undoubtedly make an attempt to defraud other banks and for their added protection we are reproducing the photograph and handwriting specimen mentioned.



The Missouri Bankers Association offers a reward of $50 for the apprehension, conviction, and imprisonment of one WALTER GOSS (3400), on the charge of defrauding a member in Lafayette County, and the defrauded bank offers a reward of $25 for said Goss on the same charge, making a total of $75. The reward is to remain in force for a period of one year from Aug. 31, 1928, and to be paid according to the by-laws of the Missouri Bankers Association.

Goss formerly ran a small restaurant. He deposited in one bank in the town where the fraud was perpetrated a

check for $250 made out on a printed form of "TERRELL & JONES FINANCE COMPANY, St. Louis and Kansas City," signed "R. C. TERRELL," drawn on the First National Bank of Kansas City. This check proved to be worthless, but before it had time to clear, Goss succeeded in cashing at another bank in the same town a check drawn on the bank that took the item for collection. Goss is described as 28 years of age, 5 feet 6 inches tall, weighing 145 pounds; black hair, fair complexion, slender build, sparkling black eyes; of a somewhat nervous disposition.

JAMES FOUNTAIN (3399), negotiated a forged check drawn on a Hepler, Kan., bank, and then left town in a Ford coupé which he stole from the depositor whose name he forged. Specimen of the operator's handwriting is reproduced, and he is about 5 feet 6 inches tall, weighing 180 pounds; heavy set; has sandy complexion and hair gray at the temples, bald on top.

Fountain
15.00
aug 11 8

JACK HARRISON (3401), who is about 22 years old, of slight build, with dark curly hair, succeeded in defrauding a New York member which cashed a bogus check drawn on a bank in Newark, N. J. Harrison arranged for the purchase of Cumulative Plan insurance, and deposited $50 with the New York bank. He later appeared to change his mind and secured a treasurers' check in the amount of his deposit, then went to another window where he showed the treasurers' check as identification, and succeeded in negotiating the bogus check. The meager description furnished above is all we have of this operator, and at the present time no handwriting is available.

The First National Bank of Lakeland, Fla., advises that checks signed R. F. HEWETT (3402) as president of the Atlantic and Gulf Land Corporation, drawn on the Florida National Bank of Jacksonville, are coming through from various southern points in spite of the fact that the above account has been closed for the past two years. The checks generally bear the indorsements of a hotel and are in the amounts of $10 and $15.

Matronly Check Passers

THE city of Charles Town, W. Va., was recently visited by two female operators who, while working independent of each other, apparently are traveling together.

One calling herself MRS. GEORGE HOOVER (3403), who is 45 to 48 years of age, 5 feet 9 inches tall, weighing 160 to 170 pounds; with long dark hair, wearing glasses, visited several department stores accompanied by a girl 12 or 13 years of age, where after making small purchases she presented a check drawn on the Peoples Bank of Hanover, Hanover, Pa., payable to her own order, signed Pennsylvania Engineering Company, by George G. Hoover. The name of the company was typewritten over the signature line. In the upper left corner the word "Countersigned" was typewritten above the signature J. A. Jones. "For expense and personal use, Mrs. Hoover" appeared in the lower left corner.

The other operator, under the name of MRS. ETTA GIBSON (3404), worked the same scheme, her checks being signed Cumberland Valley Planters Supply Company, M. B. Gibson, countersigned E. W. West marked "For personal use and expense." Mrs. Gibson is 35 to 40 years of age, 5 feet 9 inches tall, weighing 140 to 150 pounds; has bobbed dark hair, florid complexion, and was accompanied by two boys who appeared to be 8 and 10 years of age respectively and a girl 12 years of age.

They apparently gambled on a law of averages, and when any objection was made to giving them cash on their checks, they requested their purchases be held while they went out and secured cash. When this was done they never came back.

Mrs George
Hoover

Jno. B.
Gibson

THOMAS HURFORD (3405), and WALTER HYRKAS (3406), worked as harvest hands in the vicinity of Fullerton, N. D., and after being paid off by the farmer for whom they were working, they forged his name on three checks for small amounts, then left town in a second-hand Ford roadster bearing Illinois license plates. Hurford is believed to live somewhere in Iowa, and Hyrkas is said to come from Wadena, Minn. We are reproducing signatures of both these operators, and should they be identified by any member bank, the police of Fullerton, N. D., should be notified. Hurford is about 26 years of age, 5 feet 10 inches tall, weighing 165 pounds; has light hair and blue eyes. Hyrkas is about the same age, 5 feet 7½ inches tall, weighing 140 pounds, and has dark hair.

Walter Hyrkas

Thomas Hurford

About a year ago a person using the name ROBERT JACKSON (3407), succeeded in getting a small check cashed by an official of a Pittsburgh, Pa., bank, and as this transaction proved satisfactory, Jackson was again successful in having a small check cashed when he visited the bank on July 16 last. This check was drawn on the Union Bank and Trust Company of Clarksburg, W. Va., and was later returned marked "no account" by the Union National Bank of Clarksburg. Investigation discloses that there is no Union Bank and Trust Company of Clarksburg, W. Va., and there is no Robert Jackson listed at the address which the operator gave to the Pittsburgh banker.

DORIS P. KENNEDY (3408), is reported as having been successful at Long Island summer resorts in negotiating bogus checks drawn on the Scarsdale National Bank and Trust Company, Scarsdale, N. Y. No description of the operator is available, but her signature is reproduced.

Doris P. Kennedy

EDWARD W. KOERNER (3409), who is 47 years of age, 5 feet 7 inches tall, weighing 180 pounds; with dark complexion, stocky build, and apparently German, organized a so-called Engineering and Construction Company and after associating himself with reputable business men of Los Angeles he established quarters in a new office building in that city, and waited until one of the local banks solicited his account. He favored this bank with his business, depositing a $5,500 draft drawn against his personal account at the United Bank and Trust Company of San Francisco. When opening the account his appearance impressed an officer, who O. K'd. the deposit so that the operator could withdraw $100. The O. K. of the officer was interpreted to mean that the entire deposit was O. K., and the following day Koerner succeeded in withdrawing the major portion of his account. The draft on the San Francisco bank was subsequently returned with the advice that while Koerner had an account with the bank, it was at that time overdrawn $10. Investigation showed that the elaborate furnishings in his office had been purchased entirely on credit without even a penny deposit. A complaint has been made to the Los Angeles police, and we believe that if this party is lo-

cated a warrant will be issued, and he will be returned to Los Angeles for prosecution.

Fake Promotor

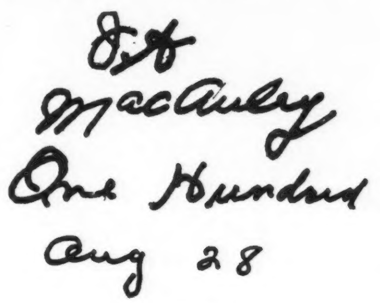
ELMER A. LOGAN (3410), regarding whom warning articles appeared in this section on page 7 of the March, 1928, issue and page 8, May issue, is still active and has recently been reported from Newark, N. J., where he succeeded in negotiating bogus cashiers' checks purporting to have been issued by the Mercantile Trust and Savings Bank of Quincy, Ill., drawn on the Hanover Bank of New York City. The genuine cashiers' checks issued by this bank are printed on buff paper, whereas the bogus items are printed on blue paper and bear a water mark which does not appear on the genuine. Logan apparently gets his victims through reading advertisements inserted by legitimate business concerns who are seeking additional working capital. He will answer the advertisements, enter into negotiations and work up to a point where the local business men will introduce him at their banks. He then opens an account with a bogus cashiers' check and on the strength of his business relationship with the bank's depositor, he is generally successful in being allowed to withdraw several hundred dollars against his deposit before returns are received. Logan is 50 to 55 years of age, 5 feet 8 inches tall, weighing 180 pounds; has florid complexion, brown eyes, and a gold capped tooth which is very noticeable; wears glasses. Should this operator visit any member bank, it is requested that our agents be immediately notified.

L. A. McDONALD (3412) won the confidence of a depositor of a St. Louis, Mo., bank and had him indorse what purported to be a cashiers' check issued by the First National Bank of Minneapolis. The check was numbered 8732 and signed S. H. Bozair. Subsequently, this check was returned marked "forgery" with the advice that it appeared to be similar to the form of cashiers' check used by the issuing bank, but was probably one of several stolen from their lithographer about four years ago. In this instance, there was no loss to the member bank. However, the operator appears to be a very smooth worker, and he may pick a bank for his next victim. He is 36 years of age, 5 feet 7 inches tall, weighing 125 to 135 pounds; smooth shaven; has dark hair turning gray and sharp feature.

J. A. MacAULEY (3411) victimized a bank in Oswego County, N. Y., through negotiating forged checks against the account of a depositor with whom he had formerly roomed. Since he left New York, inquiries have been received from Montreal, Canada, where it appears he used the names George A. Hibbard and J. A. Sullivan. The operator's mother is said to live in a small town just outside of Quebec, Canada, but at this writing no definite address

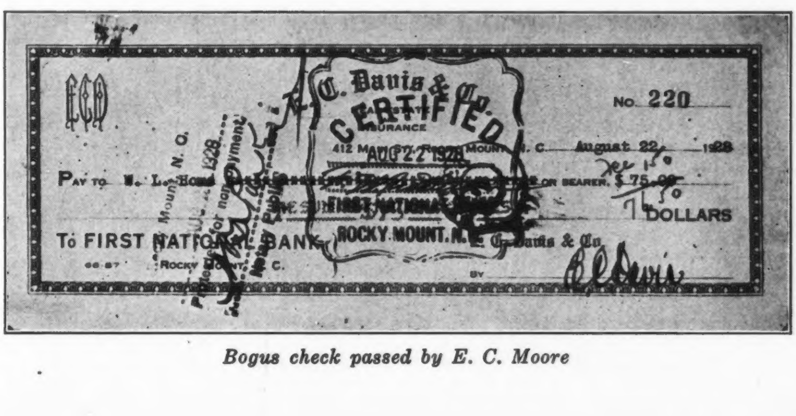
J. A. MacAuley

has been ascertained. MacAuley is about 28 years of age, 5 feet 8 or 9 inches tall, weighing 155 pounds; has brown eyes, black hair, and high forehead. He seldom wears a hat and his face is very tanned. The police of Central Square, N. Y., would appreciate advice from anyone recognizing the operator from his photograph or handwriting published herewith.



E. C. MOORE (3413), alias R. S. Burnes, alias Samuel A. Goodwin, alias W. L. Home, who is reported on page 6 of the September, 1928, Protective Section, has apparently found the profits which were secured from his initial attempt in negotiating bogus certified checks attractive. Since our last issue went to press, other reports have been received covering his operations, the latest being from the North Carolina Bankers Association, which advises he is drawing checks on the First National Bank of Rocky Mount, N. C., signed E. C. Davis and Company by E. C. Davis. One of these checks is reproduced. There is no such firm in Rocky Mount, nor is there a 412 Main Street. Some of the bogus certifications are signed F. W. Richardson, although there is no such party connected with the bank. Others bear the name of W. F. Parkerson, which is the correct name of the cashier, but of course not his signature. The checks came through from Raleigh, N. C., Memphis, Tenn., and the last reported from New Orleans, La. Investigation at Rocky Mount disclosed that the operator succeeded in having a local printer make up for him five books of printed checks, and he secured delivery of the first hundred which were numbered 201 to 300. The checks are printed on light blue Hammermill Safety Paper. They are numbered in red, and the name of the bank in the lower corner is also printed in red. The certification stamp used is a very crude affair, and the name of the bank can be changed at will, as the operator apparently uses interchangeable type. Moore is about 45 years of age, rather short, and slightly gray.

P. BRONTE NEILDS (3414), is reported to be using his former connections with the various Boy Scout organizations, to assist him in negotiating bogus checks and committing other forms of larceny. About two years ago, he went to Knoxville, Tenn., and produced a Deputy Commissioner's certificate from the Detroit, Mich., council of the boy scouts. On the strength of this certificate, he was appointed Deputy Commissioner in the Knoxville organization and at the time was employed by the East Tennessee Electric Company. His work was very satisfactory both to his employers and as a boy scout executive, but it developed that he was misrepresenting funds and making false statements. When this was discovered he left Knoxville in a car which was the property of his employers, and to pay his expenses, he put over a $150 check on another scout executive. The meager description which we have of the operator gives his age as about 30 years, states that he is of stocky build and is accompanied by his wife, who has very red hair and his mother-in-law, who is about 60 years of age. The car stolen from Knoxville is a 1924 model Ford coupe. We are advised that a warrant is in existence at Knoxville, and he will be extradited on this warrant, and that another warrant is in existence at Elmira, N. Y. for petty larceny, but that no action will be taken on this latter warrant unless the operator is apprehended within the boundary of New



Bogus check passed by E. C. Moore

York State. Neilds appears to know the advertising business very well, and has spent considerable time as a salesman for Frigidaire products.

C. W. PERRY (3416), alias H. E. Speele, who is reported on page 7 of the June, 1928, Protective Section, is still negotiating forged checks against the account of the Bullock Hospital, carried at the Murchison National Bank, Wilmington, N. C. The last reports indicate that he is in the vicinity of Litonia, Ohio. Perry is about 40 years of age, 5 feet 8 inches tall, weighing 165 pounds; medium build, has dark hair, thin on top and wears tortoise shell glasses. Any person recognizing him through this warning should notify their local police and instruct them to get in touch with the police at Wilmington or Selma, N. C.

CLIFFORD O. STEEL (3418), alias J. E. Steel, alias C. E. Stiles, opened an account in a Seattle, Wash., bank with a check drawn on the San Diego Trust and Savings Bank signed C. E. Stiles, which name he used in introducing himself at the Seattle bank. The operator stated that he had been in the battery business in Cleveland, Ohio, and was going to start up the same business in Seattle. As identification he presented a paid-up receipt in Cleveland Aerie No. 135 Fraternal Order of Eagles, also a card showing membership in Cleveland Lodge No. 139 A. F. & A. M. His general appearance and the strong identification that he appeared to have induced the Seattle banker to cash a small check which was later returned "No account." Investigation disclosed that the operator had joined the order of Eagles in April, 1928, and had paid his initiation fee and dues with a check which was later returned marked "Insufficient Funds." There is no Cleveland Lodge No. 139 A. F. & A. M. located in that city. We have no physical description or handwriting of the operator in our files, but we are advised that the police of Detroit, Mich., hold a warrant for his arrest.

A member bank in Greenwood, Miss., advised us of the activities of one A. M. WILLIAMS (3420), said to be a native of Hammond, Ind., who is now drawing checks against the Peoples Co-operative State Bank of Hammond, Ind., but has no funds on deposit there to meet them. It is believed that he has already served time in the Illinois State Farm for a similar offense, and at the present time the Sheriff of Leflore County, Miss., holds a warrant for his arrest. He is 22 years of age, 5 feet 9 inches tall, weighing 155 pounds; of stocky build; has light brown hair, blue eyes, fair complexion and rosy cheeks.

ARIS WILLINGHAM (3421), alias George B. Coleman, M. D., has succeeded in defrauding a Philadelphia bank through having them honor worthless checks drawn on the Franklin Trust Company and Central Trust and Savings Bank of Philadelphia. His checks have the amount perforated, but the work has apparently been done with a pin instead of the regular machine. No description of handwriting is available at this time.

Guy Hendrix Wilson

GUY HENDRIX WILSON (3422), alias John P. Sladen, alias H. M. McWhorter, whose picture in conjunction with an article reporting his arrest in Harrisburg, Pa., was published on page 5 of the March, 1926, Protective Section, evidently did not remain long as a guest of the Pennsylvania city. His operations are again reported at western points. He is said to have eloped with a young girl to some place in Kansas, and after announcing his marriage to his mother-in-law, succeeded in having her pay his expenses to other points by means of bogus checks which she and her friends cashed for him. These checks were drawn on the Chelsea Exchange Bank of New York, signed H. M. McWhorter. From information in our possession, it is believed that McWhorter and his wife are headed in the direction of New York, where he will no doubt continue his old occupation. We are again reproducing his picture, and his description follows: 38 years of age, 5 feet 9 or 10 inches tall, weighing 149 pounds; black hair turning gray, gray eyes.

Sneak Thieves Active in Ohio

A MEMBER bank in Youngstown, Ohio, reports a loss of $3,100 in bonds through the activities of two sneak thieves. About noon, September 21, a call was received by the person in charge of the bond department requesting that an immediate check be made in connection with a lost coupon. As the other employees were out to lunch at the time it was necessary to leave the window in order to get the requested information. During the employee's absence from the cage the following United States Certificates of Indebtedness were stolen, apparently by using a cane and pulling them close enough to the window so that they could be easily reached: Series TJ, due June 15, 1929, dated September 15, 1928, each having the coupon due December 15, 1928, and June 15, 1928, attached. Numbers and denominations are as follows:

No. 12219	$1,000
No. 12230	1,000
No. 14412	500
No. 14419	500
No. 22189	100

During the morning just preceding the attack on the bank, two suspicious persons were observed loitering in the lobby, one about 35 years of age, 5 feet 10 inches tall, slender build, dark complexion; wearing dark suit and gray felt hat. The other was about 30 years of age, 5 feet 7 inches tall, slender build, light complexion; both seemed very well groomed.

Another Ohio bank has reported a sneak theft committed in a similar manner. Therefore banks, especially in the Central States, should not leave currency or securities unguarded where they may be reached by outsiders, and they should be on the alert for any suspicious characters of the above descriptions.

Arrests and Dispositions

THE detailed record of arrests and dispositions usually presented upon this page is omitted due to lack of space, but the figures are taken into account in the following table:

Statistics of the Protective Department

	Awaiting Trial, Sept. 1, 1928	Arrests: Reported in September, 1928	Dispositions: Convicted	Dispositions: Discharged or Acquitted	Dispositions: Fugitives Escaped, Insane or Dead	Total Awaiting Trial
Forgers, etc.	99	16	10	8	4	93
Burglars	23	....	....	....	....	23
Holdups	127	15	14	....	....	128
Total	249	31	24	8	4	244